

## UNIT 21 QUIZ

- Regarding the federal Lead-Based Paint Hazard Reduction Act, which statement is *TRUE*?
  - All residential housing built before 1978 must be tested for the presence of lead-based paint before being listed for sale or rent.
  - A disclosure statement must be attached to all sales contracts and leases involving residential properties built before 1978.
  - A lead-hazard pamphlet must be distributed to all prospective buyers but not to tenants.
  - Purchasers of housing built before 1978 must be given five days to test the property for the presence of lead-based paint.
- The term *encapsulation* refers to
  - the process of sealing a landfill with three to four feet of topsoil.
  - the way in which insulation is applied to pipes and wiring systems.
  - the method of sealing disintegrating asbestos.
  - the way in which lead-based paint particles become airborne.
- A real estate professional showed a pre-World War I house to a prospective buyer. The buyer has two toddlers and is worried about potential health hazards. Which of the following is *TRUE*?
  - There is a risk that urea-formaldehyde foam insulation was used in the original construction.
  - The real estate professional can offer to personally inspect for lead and remove any lead risks.
  - Because of the age of the house, there is a good likelihood of the presence of lead-based paint.
  - Removal of lead-based paint and asbestos hazards is covered by standard title insurance policies.
- Which of the following is *TRUE* regarding asbestos?
  - Improper removal of asbestos can cause further contamination of a building.
  - Asbestos causes health problems only when it is eaten.
  - The level of asbestos in a building is affected by weather conditions.
  - HUD requires that all asbestos-containing materials be removed from all residential buildings.
- A factor that may contribute to the growth of mold is
  - high humidity.
  - adequate ventilation.
  - intact roofing.
  - properly installed gutters.
- Federal underground storage tank (UST) regulations require that
  - home fuel oil tanks in basements be registered with the EPA.
  - septic tanks be pumped every five years.
  - liquid petroleum tanks that store at least 10% of their volume underground be in compliance.
  - states not develop regulations more stringent than the federal requirements.
- Which of the following describes the process of creating a landfill site?
  - Waste is liquefied, treated, and pumped through pipes to tombs under the water table.
  - Waste and topsoil are layered in a pit, mounded up, and then covered with dirt and plants.
  - Waste is compacted and sealed in a container, then placed in a tomb designed to last several thousand years.
  - Waste is buried in an underground concrete vault.
- With the exception of the innocent landowner, liability under the Superfund is
  - limited to the owner of record.
  - joint and several and retroactive, but not strict.
  - voluntary.
  - strict, joint and several, and retroactive.
- Radon poses the greatest potential health risk to people when it is
  - contained in insulation material used in residential properties during the 1970s.
  - found in high concentrations in unimproved land.
  - trapped and concentrated in inadequately ventilated areas.
  - emitted by malfunctioning or inadequately ventilated appliances.
- What do urea-formaldehyde foam insulation (UFFI), lead-based paint, and asbestos have in common?
  - They all pose a risk to humans because they may emit harmful gases.
  - They all were banned in 1978.
  - All three were used in insulating materials.
  - They were all used at one time in residential construction.
- A method of sealing off disintegrating asbestos is called
  - capping.
  - encapsulation.
  - containment.
  - contamination closure.
- Lead-based paint
  - is still commonly used in residences.
  - can be found in all commercial buildings.
  - requires in a renovation that a residential contractor be trained and certified.
  - is not dangerous when ingested.
- The *MOST* common source of harmful lead in older residential properties is
  - asbestos.
  - basements.
  - appliances.
  - alkyd oil-based paint.
- Urea-formaldehyde is found in residential properties in
  - lead-based paints.
  - insulating foam.
  - home appliances.
  - USTs.
- In regulations regarding lead-based paints, HUD requires that
  - homeowners test for its presence.
  - paint be removed from surfaces before selling.
  - known lead-based paint hazards be disclosed.
  - only homeowners deal with its removal.
- Radon is
  - only found in the eastern United States.
  - easy to detect because of its odor.
  - a known human carcinogen.
  - not found in older homes.
- Contamination from underground storage tanks is
  - found only in petroleum stations.
  - addressed by EPA regulations.
  - only caused by tanks currently in use.
  - easily detected and eliminated.
- The presence of underground water contamination is
  - a major problem in the United States.
  - separate from private wells and public water systems.
  - covered by very few state and federal laws.
  - the testing responsibility of the real estate professionals.
- CERCLA regulations for administration of the Superfund, which helps pay for cleanup of uncontrolled hazardous waste sites,
  - exempt from responsibility those sites that contaminate neighboring properties.
  - release from liability those owners of contaminated property who did not actually cause known contamination.
  - make no provision for recovering Superfund expenses incurred in cleanup operations.
  - impose strict, joint and several, and retroactive liability on potentially responsible parties.
- Asbestos dust can cause
  - lung disease.
  - radiation sickness.
  - skin cancer.
  - AIDS.

13. In one city, developers are limited by the zoning law to constructing no more than an average of three houses per acre in any subdivision. What does this restriction regulate?
- A. Clustering
  - B. Gross density
  - C. Out-lots
  - D. Covenants
14. Which of the following is a variance?
- A. An exception to a zoning ordinance
  - B. A court order prohibiting certain activities
  - C. A reversion of ownership
  - D. A nullification of an easement
15. Permitted land uses and set-asides, housing projections, transportation issues, and objectives for implementing future controlled development would all be found in a community's
- A. zoning ordinance.
  - B. comprehensive plan.
  - C. enabling act.
  - D. land-control law.
16. The difference between the cost basis of property and its net selling price is
- A. cost recovery.
  - B. appreciation.
  - C. leverage.
  - D. capital gain.
17. A plat for a proposed subdivision is submitted to
- A. the municipality.
  - B. the property owners.
  - C. the developer.
  - D. the state.
18. Restrictive covenants
- A. are no longer effective when the title is transferred.
  - B. apply only until the developer has conveyed the title.
  - C. can be removed by a court of competent jurisdiction.
  - D. apply to and bind successive owners of the property.
19. To protect the public from fraudulent interstate land sales, a developer involved in interstate land sales of 25 or more lots must
- A. provide each purchaser with a printed report disclosing details of the property.
  - B. pay the prospective buyer's expenses to see the property involved.
  - C. provide preferential financing.
  - D. allow a 30-day cancellation period.
20. When is a certificate of occupancy issued?
- A. When the owner of a multifamily residential property wishes to limit the number of individuals who may live in a single unit
  - B. At the time a property owner applies for a building permit
  - C. After building construction work has been inspected and found satisfactory by the municipal inspector
  - D. When an application for a variance or conditional-use permit has been granted by the zoning board

# UNIT 21

## Environmental Issues and the Real Estate Transaction

### LEARNING OBJECTIVES

*When you have completed this unit, you will be able to accomplish the following.*

- › **Identify** the basic environmental hazards the real estate professional should be aware of for the protection of client interests as well as the personal risk of liability for nondisclosure.
- › **Describe** groundwater, water table, and the provisions of the Safe Drinking Water Act.
- › **Describe** the issues involved with underground storage tanks, and the associated legal requirements facing the property owner.
- › **Explain** the regulation involved in the creation and operation of waste disposal sites and in the control of brownfields.
- › **List** the various federal laws which protect the public from uncontrolled hazardous waste, and the liability issues facing those who violate any of these laws.
- › **Explain** the responsibilities and duties of real estate professionals regarding environmental issues.

### KEY TERMS

asbestos	environmental site assessment (ESA)	Small Business Liability Relief and Brownfields Revitalization Act
brownfields	formaldehyde	Superfund Amendments and Reauthorization Act (SARA)
carbon monoxide (CO)	groundwater	underground storage tanks (USTs)
chlorofluorocarbons (CFCs)	hydraulic fracturing (fracking)	urea-formaldehyde foam insulation (UFFI)
Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)	lead	water table
encapsulation	Lead-Based Paint Hazard Reduction Act (LBPBRA)	wetlands
environmental impact statement (EIS)	mold	
	polychlorinated biphenyls (PCBs)	
	radon	

## UNIT 20 QUIZ

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1. A subdivision declaration reads, “No property within this subdivision may be further subdivided for sale or otherwise, and no property may be used for other than single-family housing.” This is an example of
  - A. a restrictive covenant.
  - B. an illegal reverter clause.
  - C. R-1 zoning.
  - D. a conditional-use clause.
2. A landowner who wants to use property in a manner that is prohibited by a local zoning ordinance but which would benefit the community can apply for which of the following?
  - A. Conditional-use permit
  - B. Prescriptive easement
  - C. Occupancy permit
  - D. Property allowance
3. Private land-use controls include
  - A. subdivision regulations.
  - B. covenants, conditions, and restrictions.
  - C. environmental protection laws.
  - D. comprehensive plan specifications.
4. Under its police powers, a municipality may regulate
  - A. resident occupations.
  - B. ethnicity of owners.
  - C. building uses.
  - D. familial status.
5. The purpose of a building permit is to
  - A. indicate the property is suitable for habitation.
  - B. maintain municipal control over the amount of building.
  - C. provide evidence of compliance with municipal regulations.
  - D. show compliance with restrictive covenants.
6. The use of borrowed money to finance an investment is called
  - A. leverage.
  - B. appreciation.
  - C. depreciation.
  - D. capital gain.
7. Another name for depreciation is
  - A. cost recovery.
  - B. leverage.
  - C. capital gain.
  - D. inflation.
8. To determine whether a location can be put to future use as a retail store, one would examine
  - A. the building code.
  - B. the list of permitted nonconforming uses.
  - C. the housing code.
  - D. the zoning ordinance.
9. A legal deed restriction can include
  - A. allowable race of purchasers.
  - B. types of buildings that may be constructed.
  - C. citizen status of residents.
  - D. disposition of buildings to be constructed.
10. A restriction in a seller’s deed may be enforced by which of the following?
  - A. Court injunction
  - B. Zoning board of appeal
  - C. City building commission
  - D. State legislature
11. A property owner owns a large tract of land. After an adequate study of all the relevant facts, the owner legally divides the land into 30 lots suitable for the construction of residences. In this situation, the property owner is acting as
  - A. a subdivider.
  - B. a developer.
  - C. a land planner.
  - D. an urban planner.
12. A map illustrating the sizes and locations of streets and lots in a subdivision is called
  - A. a gridiron plan.
  - B. a survey.
  - C. a subdivision plat map.
  - D. a property report.

## UNIT 19 QUIZ

- Which type of insurance coverage insures an employer against *MOST* claims for job-related injuries?
  - Consequential loss
  - Workers' compensation
  - Casualty
  - Surety bond
- Avoid, control, transfer, or retain are the four alternative techniques of
  - tenant relations.
  - acquiring insurance.
  - risk management.
  - property management.
- Adaptations of property specifications to suit tenant requirements are
  - tax-exempt improvements.
  - tenant improvements.
  - prohibited by most nonresidential leases.
  - generally not a good idea.
- A guest slips on an icy apartment building stair and is hospitalized. A claim against the building owner for medical expenses may be paid under which of the following policies held by the owner?
  - Workers' compensation
  - Casualty
  - Liability
  - Fire and hazard
- A management agreement will include
  - all liens on the property.
  - the property owner's tax status.
  - the extent of the manager's authority.
  - restrictions regarding ages of children.
- A property manager is offered a choice of three insurance policies with different deductibles. If the property manager selects the policy with the highest deductible, which risk management technique is being used?
  - Avoiding risk
  - Retaining risk
  - Controlling risk
  - Transferring risk
- Asbestos, sick building syndrome (SBS), and lead-based paint are all examples of
  - issues beyond the scope of a property manager's job description.
  - problems found only in newly constructed properties.
  - issues that arise under the Americans with Disabilities Act (ADA).
  - environmental concerns that a property manager may have to address.
- The manager of a commercial building has many responsibilities in connection with the operation and maintenance of the structure. The manager would normally be considered the agent of
  - the building's owner.
  - the building's tenants.
  - both the owner and the tenants.
  - neither the owner nor the tenants.
- Which of the following would be considered a variable expense when a manager develops an operating budget?
  - Employee wages
  - Utilities
  - Building repairs
  - Basic operating costs
- In *MOST* market areas, rents are determined by
  - supply and demand factors.
  - the local apartment owners' association.
  - HUD.
  - a tenants' union.
- An apartment complex is severely damaged by a tornado, making it uninhabitable. What type of insurance covers the landlord against the resulting loss of rent?
  - Fire and hazard
  - Liability
  - Consequential loss, use, and occupancy
  - Casualty
- A property manager hires a full-time maintenance person. While repairing a faucet in one of the apartments, the maintenance person steals some jewelry and the tenant sues the owner. The property manager could protect the owner against this type of loss by purchasing
  - liability insurance.
  - workers' compensation insurance.
  - a surety bond.
  - casualty insurance.
- Residential leases are usually expressed as
  - an annual or monthly rate per square foot.
  - a percentage of total space available.
  - a monthly rate per unit.
  - an annual rate per room.
- A property manager repairs a leaking sink. This is classified as which type of maintenance?
  - Preventive
  - Corrective
  - Routine
  - Construction
- A property manager who enters into a management agreement with an owner is usually
  - a special agent.
  - a general agent.
  - a universal agent.
  - a designated agent.
- A statement sent to an owner that reflects the entire debt service as an expense is called
  - a profit and loss statement.
  - a cash flow report.
  - a variable expense report.
  - an operating budget statement.
- An insurance policy package that includes standard commercial property coverage such as fire, hazard, public liability, and casualty is called what kind of policy?
  - Coinsurance
  - Multiperil
  - Universal
  - Surety
- Removing existing barriers when readily achievable in public buildings, such as adding Braille markings to elevator buttons, is a requirement of which law?
  - Fair Housing Act
  - Equal Credit Opportunity Act
  - Americans with Disabilities Act
  - Regulation Z
- Title III of the Americans with Disabilities Act (ADA) impacts which type of property?
  - Residential
  - Industrial
  - Commercial and public accommodations
  - Privately owned
- In evaluating rental applications, it is important for the property manager to establish consistent criteria for acceptable debt and income ratios in order to be in compliance with
  - federal antitrust laws.
  - the Americans with Disabilities Act.
  - Regulation Z.
  - the Equal Credit Opportunity Act.

18. Which of the following is legal?

A. Charging a family with children a higher security deposit than those with no children

B. Requiring a person with a disability to establish an escrow account for the costs to restore a property after it has been modified

C. Picturing only white people in a brochure as the “happy residents” in a housing development

D. Refusing to sell a house to a person who has a history of mental illness
19. The landlord’s lease prohibits tenants from altering the property in any way. A young woman who uses a wheelchair cannot maneuver over the doorstep into her apartment by herself. In addition, she cannot access the bathroom facilities in her wheelchair. Which of the following is *TRUE*?

A. The landlord is responsible for making all apartments accessible to people with disabilities.

B. The tenant cannot remedy these conditions because of the terms of the lease.

C. The landlord should not have rented this apartment to the tenant.

D. The tenant is entitled to make the necessary alterations.
20. The provisions of the federal Fair Housing Act apply

A. in all states.

B. in those states that have ratified the act, but not in other states.

C. only in those states that do not have substantially equivalent laws.

D. only in those states that do not have specific state fair housing laws.

UNIT

19

Property Management

LEARNING OBJECTIVES

- When you have completed this unit, you will be able to accomplish the following.*
- › **Describe** the various property management assignments available in the property management field and the role of the property manager in each.

› **Explain** the essential elements of the property management agreement.

› **List** the primary responsibilities of the property manager.

› **Describe** the various federal laws, which the property manager must know and follow in the performance of management.

› **Describe** the implementation of risk management procedures to insure the safety and security of a managed property’s tenants as well as to protect the landlord from liability and loss.

KEY TERMS

budget comparison	multi peril policies	routine maintenance
statement	operating budget	surety bonds
cash flow report	preventive maintenance	tenant improvements
corrective maintenance	profit and loss statement	workers’ compensation
management agreement	property manager	acts
management plan	risk management	

OVERVIEW

Property management involves the leasing, managing, marketing, and overall maintenance of real estate owned by others, usually rental property. Although some owners of rental units manage their own properties (a real estate license is not required to do so), most rental properties are professionally managed. Many mortgage lenders require that investors hire a professional property manager to manage their properties.

In many states, property managers are required to hold a real estate broker’s or property manager’s license. As with all real estate services, a real estate sales associate can only manage property with the consent of the employing broker and in the broker’s name.

## UNIT 18 QUIZ

- Under the Fair Housing Act, which action is legally permitted?
  - Advertising property for sale only to a special group
  - Altering the terms of a loan for a member of a protected class
  - Refusing to make a mortgage loan to a member of a protected class because of a poor credit history
  - Telling a member of a protected class that an apartment has been rented when in fact it has not
- Complaints relating to the Civil Rights Act of 1866
  - must be taken directly to a federal court.
  - are no longer reviewed in the courts.
  - are handled by HUD.
  - are handled by state enforcement agencies.
- Why is the Civil Rights Act of 1866 unique?
  - It has been broadened to protect the aged.
  - It adds welfare recipients as a protected class.
  - It contains "choose your neighbor" provisions.
  - It provides no exceptions that would permit racial discrimination.
- A real estate professional said to a homeowner, "I hear *they're* moving in. There goes the neighborhood! Better put your house on the market before values drop!" This is an example of what illegal practice?
  - Steering
  - Blockbusting
  - Redlining
  - Fraudulent advertising
- The act of directing homeseekers toward or away from particular areas, either to maintain or to change the character of the neighborhood, is
  - blockbusting.
  - redlining.
  - steering.
  - permitted under the Fair Housing Act of 1968.
- A lender's refusal to lend money to potential homeowners attempting to purchase properties located in particular ethnic neighborhoods is known as
  - redlining.
  - blockbusting.
  - steering.
  - prequalifying.
- The federal Fair Housing Act would permit
  - a hotel renting rooms only to celebrities.
  - the owner of a 20-unit residential apartment building renting to men only.
  - an apartment next to a Catholic college refusing to furnish housing for a Jewish man.
  - an owner refusing to rent the other side of the duplex in which she lives to a family with children.
- It is illegal for a lending institution to refuse to make a residential real estate loan in a particular area based on
  - the ethnicity of the residents of the area.
  - the applicant's questionable economic situation.
  - the applicant not being of legal age.
  - the deteriorated condition of the premises.
- Which agency, upon receiving a complaint regarding a Fair Housing Act violation, investigates?
  - HUD
  - HOPA
  - DOJ
  - ADA
- Housing that qualifies for exemption from familial status provisions
  - includes housing intended for persons 50 or older.
  - includes a restriction that 80% of the units be occupied by persons 55 or older.
  - is not permitted under the federal Fair Housing Act.
  - is permitted for owner-occupied buildings with four or more units.
- Which statement describes the Supreme Court's decision in the case of *Jones v. Alfred H. Mayer Company*?
  - Racial discrimination is prohibited by any party in the sale or rental of real estate.
  - Sales by individual residential homeowners are exempted, provided the owners do not use real estate professionals.
  - Laws against discrimination apply only to federally related transactions.
  - Persons with disabilities are a protected class.
- After a real estate professional takes a sale listing of a residence, the owners specify that they will not sell the home to any Chinese family. The real estate professional should do which of the following?
  - Advertise the property exclusively in newspapers marketed to persons of Chinese heritage.
  - Explain to the owners that the instruction violates federal law and that the real estate professional cannot comply with it.
  - Abide by the owners' directions despite the fact that they conflict with the fair housing laws.
  - Require that the owners sign a separate legal document stating the additional instruction as an add-on to the listing agreement.
- The resolution of a complaint to HUD that includes obtaining assurance that the person against whom the complaint was filed (the respondent) will remedy any violation is called
  - conciliation.
  - arbitration.
  - settlement.
  - prosecution.
- A single man with two small children has been told by a real estate professional that homes for sale in a condominium complex are available only to married couples with no children. Which statement is *TRUE*?
  - Because a single-parent family can be disruptive if the parent provides little supervision of the children, the condominium is permitted to discriminate against the family under the principle of rational basis.
  - Condominium complexes are exempt from the fair housing laws and can therefore restrict children.
  - The man may file a complaint alleging discrimination on the basis of familial status.
  - Restrictive covenants in a condominium take precedence over the fair housing laws.
- The following ad appeared in the newspaper: "For sale: 4 BR brick home; Redwood School District; excellent Elm Street location; short walk to St. John's Church; and right on the bus line. Move-in condition; priced to sell." Which statement is *TRUE*?
  - The ad describes the property for sale and is very appropriate.
  - The fair housing laws do not apply to newspaper advertising.
  - The ad should state that the property is available to families with children.
  - The ad should not mention St. John's Church.
- A suit may be filed in federal court by a person aggrieved by an alleged act of discrimination under the Fair Housing Act
  - within two years of the discriminatory act.
  - no later than one year after the discriminatory act.
  - with the approval of the state or county nondiscrimination officer.
  - if the Federal Housing Administration refuses to pursue the case.
- The federal Fair Housing Act prohibits discrimination on the basis of
  - education.
  - income.
  - marital status.
  - national origin.

19. The death of either the landlord or the tenant will terminate the lease under which of the following tenancies?

A. Tenancy for years
B. Periodic tenancy
C. Tenancy at will
D. Tenancy at sufferance
20. The tenant leases a heated apartment during a bitterly cold winter, but soon after the tenant moves in, the landlord fails to provide heat because of a defective central heating unit. The tenant vacates the premises and refuses to pay any rent. This is an example of

A. abandonment.
B. actual eviction.
C. constructive eviction.
D. lessor negligence.

UNIT  
18

Fair Housing

LEARNING OBJECTIVES

When you have completed this unit, you will be able to accomplish the following.

- › **Explain** the significance of the Civil Rights Act of 1866 to equal opportunity in housing.
- › **Describe** the various federal laws which protect Americans from unfair housing practices.
- › **Describe** blockbusting, steering, redlining, and other abusive housing practices.
- › **List** the various recourses available to the aggrieved person who believes illegal discrimination has occurred, including acts of real estate professionals.
- › **Describe** the importance to real estate professionals and the public of understanding and complying with fair housing laws.

KEY TERMS

administrative law judge (ALJ)	Department of Housing and Urban Development (HUD)	Housing for Older Persons Act (HOPA)
Americans with Disabilities Act (ADA)	Fair Housing Act	redlining
blockbusting	Fair Housing Amendments Act	steering
Civil Rights Act of 1866		Title VIII of the Civil Rights Act of 1968
conciliation		

OVERVIEW

Real estate professionals and their clients and customers reflect the wide diversity of America’s population. The ability to buy or rent adequate housing allows an individual or family to achieve and maintain a satisfying lifestyle. Housing discrimination takes its toll on its immediate victims, and it also reflects poorly on the society that allows it to exist. In short, when legal action is available to correct abuses, the end result benefits all. Understanding and working within the context of fair housing laws is critical to creating and maintaining a vibrant and ultimately profitable real estate market for everyone.

## UNIT 17 QUIZ

- Which transaction is *BEST* described as involving a ground lease?
  - A landowner agrees to let a tenant drill for oil on a property for 75 years.
  - The tenant agrees to pay a proportionate, increased rental based on annual appraisals of the rented property.
  - A landlord charges a commercial tenant for the land use and the tenant erects its own building.
  - The tenant pays a base amount for the property plus a percentage of business-generated income.
- A tenant enters into a commercial lease that requires a monthly rent of a minimum fixed amount, plus an additional amount determined by the tenant's gross receipts exceeding \$5,000. This type of lease is called
  - a standard lease.
  - a gross lease.
  - a percentage lease.
  - a net lease.
- If a tenant moved out of a rented store building because access to the building was blocked as a result of the landlord's negligence,
  - the tenant would have no legal recourse against the landlord.
  - the landlord may be liable for the rent until the expiration date of the lease.
  - the landlord may have to provide substitute space.
  - the tenant may be entitled to recover damages from the landlord.
- A tenant moves a pet into an apartment community that has a no-pets policy. The landlord wishes to remove the tenant due to the breach. The legal process to remove a tenant is known as
  - constructive eviction.
  - eminent domain.
  - actual eviction.
  - partial eviction.
- A tenant still has five months remaining on a one-year apartment lease. When the tenant moves to another city, the tenant transfers possession of the apartment to a friend for the entire remaining term of the lease. The friend pays rent directly to the tenant. In this situation, the tenant has become
  - an assignor.
  - a sublessor.
  - a sublessee.
  - a lessor.
- A tenancy in which the tenant continues in possession after the lease has expired, without the landlord's permission is
  - a tenancy for years.
  - a periodic tenancy.
  - a tenancy at will.
  - an estate at sufferance.
- A tenant's tenancy for years will expire in two weeks. The tenant plans to move to a larger apartment across town when the current tenancy expires. In order to terminate this agreement, the tenant must
  - give the landlord immediate notice or the lease will automatically renew.
  - give the landlord one week's prior notice or the lease will automatically renew.
  - do nothing because the agreement will terminate automatically at the end of the current term.
  - sign a lease for the new apartment, which will automatically terminate the existing lease.
- When a tenant holds possession of a landlord's property without a current lease agreement and without the landlord's approval,
  - the tenant is maintaining a gross lease.
  - the landlord can file suit for possession.
  - the tenant has no obligation to pay rent.
  - the landlord may be subject to a constructive eviction.
- Under the negotiated terms of a commercial lease, the landlord is required to maintain the water heater used in a health club. If the tenant is unable to get hot water because of a faulty water heater that the landlord has failed to repair after repeated notification, the tenant's best recourse for staying in business would be to
  - stop paying rent.
  - order a new water heater and deduct the payment from the rent.
  - file a criminal complaint against the landlord.
  - seek a refund of all lease payments.
- A lessee has a one-year leasehold interest in a house. The lease automatically renews itself at the end of each year. The lessee's interest is referred to as a tenancy
  - for years.
  - from period to period.
  - at will.
  - at sufferance.
- Rent would *BEST* be described as
  - contractual consideration to a third party.
  - consideration for the use of real property.
  - all monies paid by the lessor to the lessee.
  - the total balance owed under the terms of a lease.
- Under the terms of a net lease, a commercial landlord would usually be responsible for paying which of the following property expenses?
  - Mortgage debt service
  - Maintenance expenses
  - Fire and extended coverage insurance
  - Real estate taxes
- Which of the following describes a net lease?
  - An agreement in which the tenant pays a fixed rent and the landlord pays all taxes, insurance, and expenses related to the property
  - A lease in which the tenant pays rent, plus some—or most—of the operating expenses related to the property
  - A lease in which the tenant pays the landlord a percentage of the monthly income derived from the property
  - An agreement granting an individual a leasehold interest in fishing rights for a shoreline property
- A tenancy in which the tenant continues in possession after the lease has expired, without the landlord's permission, is
  - a tenancy for years.
  - a periodic tenancy.
  - a tenancy at will.
  - a tenancy at sufferance.
- A tenant's right to possess real estate for a definite period with a specific starting and ending date is
  - an estate for years.
  - an estate at will.
  - an estate at sufferance.
  - an estate from period to period.
- Which of the following describes a gross lease?
  - An agreement in which the tenant pays a fixed rent and some or all of the utilities and the landlord pays all taxes, insurance, and expenses related to the property
  - A lease in which the tenant pays rent plus some of the operating expenses related to the property
  - A lease in which the tenant pays the landlord a percentage of the monthly income derived from the property
  - An agreement allowing the tenant to terminate the lease if certain conditions near the premises become unbearable
- A tenant signs a lease that includes a schedule of rent increases on specific dates over the course of the lease term. What kind of lease has this tenant signed?
  - Percentage
  - Net
  - Graduated
  - Index
- A tenant signs a lease that includes the following clause: "The stated rent under this agreement will be increased or decreased every three months based on the percentage change in the consumer price index (CPI) for that period." What kind of lease has this tenant signed?
  - Percentage
  - Net
  - Graduated
  - Index

## UNIT 16 QUIZ

- Which appraisal method uses a rate of investment return?
  - Sales comparison approach
  - Cost approach
  - Income approach
  - Gross income multiplier method
- The characteristics of value include which of the following?
  - Competition
  - Scarcity
  - Anticipation
  - Balance
- There are two vacant adjacent lots in an area zoned for commercial use, each worth approximately \$50,000. If their owner sells them as a single lot, however, the combined parcel will be worth \$120,000. What principle does this illustrate?
  - Substitution
  - Plottage
  - Regression
  - Progression
- The amount of money a property is likely to command in the marketplace is its
  - intrinsic value.
  - market value.
  - subjective value.
  - book value.
- A homeowner constructs a five-bedroom brick house with an indoor pool in a neighborhood of modest two-bedroom and three-bedroom frame houses on narrow lots. The value of this house is *MOST* likely to be affected by what principle?
  - Progression
  - Assemblage
  - Change
  - Regression
- The owners of a modest ranch house in a neighborhood of larger, more expensive homes may find that the value of their home is affected by what principle?
  - Progression
  - Increasing returns
  - Competition
  - Regression
- For tax purposes, accrued depreciation may be considered as a result of
  - functional obsolescence.
  - physical deterioration.
  - external obsolescence.
  - accelerated depreciation.
- The term *reconciliation* refers to which of the following?
  - Loss of value due to any cause
  - Separating the value of the land from the total value of the property to compute depreciation
  - Analyzing the results obtained by the different approaches to value to form an opinion of value
  - The process by which an appraiser determines the highest and best use for a parcel of land
- If a property's annual net income is \$24,000 and it is valued at \$300,000, what is its capitalization rate?
  - 8%
  - 10.5%
  - 12%
  - 15%
- An appraiser applying the cost approach to value will consider which of the following?
  - Annual net operating income
  - Capitalization rate
  - Accrued depreciation
  - Annual gross income
- An appraiser asked for an opinion of the value of an existing shopping center would probably give the *MOST* weight to which approach to value?
  - Cost approach
  - Sales comparison approach
  - Income approach
  - Index method
- The market value of a parcel of real estate is
  - an estimate of its future benefits.
  - the amount of money paid for the property.
  - an estimate of the most probable price it should bring.
  - its value without improvements.
- Capitalization is the process by which annual net operating income is used to
  - determine cost.
  - estimate value.
  - establish depreciation.
  - determine potential tax value.
- From the reproduction or replacement cost of a building, the appraiser deducts depreciation, which represents
  - the remaining economic life of the building.
  - remodeling costs to increase rentals.
  - loss of value due to any reason.
  - costs to modernize the building.
- Which of the following is an important factor in comparing properties under the sales comparison approach to value?
  - Mortgage balance
  - Potential market rent
  - Differences in appearance and condition
  - Differences in original cost
- Which of the following is *TRUE* about a comparative market analysis?
  - It is made by a professional appraiser.
  - It is the same as an appraisal.
  - It is based on a detailed market analysis of market conditions, property features, recent sales and listings, land value, and construction costs.
  - None of these.
- What is the key to an accurate appraisal?
  - Methodical collection and analysis of data
  - Years of experience the appraiser has
  - Appraising in a market with high supply
  - Appraising in a market with high demand
- The appraised value of a residence with four bedrooms and one bathroom would probably be reduced because of
  - external obsolescence.
  - functional obsolescence.
  - curable physical deterioration.
  - incurable physical deterioration.
- Which principle of value indicates that a developer's very profitable real estate project will attract others to engage in similar activity in the same area and thus drive down profits?
  - Anticipation
  - Competition
  - Value
  - Progression
- Change, contribution, plottage, and substitution are some of the basic principles that affect what aspect of real estate?
  - Demand
  - Depreciation
  - Value
  - Supply

## UNIT 15 QUIZ

- Which lien affects all real and personal property of a debtor?
  - Specific
  - Voluntary
  - Involuntary
  - General
- Priority of liens refers to which of the following?
  - Order in which a debtor assumes responsibility for payment of obligations
  - Order in which liens will be paid if property is sold to satisfy a debt
  - Dates liens are filed for record
  - Fact that specific liens have greater priority than general liens
- A lien on real estate made to secure payment for a specific municipal improvement project is which of the following?
  - Mechanic's lien
  - Special assessment lien
  - Ad valorem
  - Utility lien
- Which of the following is classified as a general lien?
  - Mechanic's lien
  - Bail bond lien
  - Judgment
  - Real estate taxes
- Which lien usually would be given highest priority in disbursing funds from a foreclosure sale?
  - Mortgage dated last year
  - Real estate taxes due
  - Mechanic's lien for work started before the mortgage was made
  - Judgment rendered the day before foreclosure
- A specific parcel of real estate has a market value of \$160,000 and is assessed for tax purposes at 75% of market value. The tax rate for the county in which the property is located is 40 mills. The tax bill will be
  - \$6,400.
  - \$5,000.
  - \$5,200.
  - \$4,800.
- Which tax targets homeowners in particular?
  - Personal property tax
  - Franchise tax
  - Real property tax
  - Luxury tax
- A mechanic's lien claim arises when a contractor has performed work or provided material to improve a parcel of real estate on the owner's order and the work has not been paid for. Such a contractor has a right to
  - tear out the work.
  - record a notice of the lien.
  - record a notice of the lien and file a court suit within the time required by state law.
  - have personal property of the owner sold to satisfy the lien.
- What is the annual real estate tax on a property valued at \$135,000 and assessed for tax purposes at \$47,250, with an equalization factor of 125%, when the tax rate is 25 mills?
  - \$945
  - \$1,181
  - \$1,418
  - \$1,477
- Which of the following is a voluntary, specific lien?
  - IRS tax lien
  - Mechanic's lien
  - Mortgage lien
  - Seller's lien
- A buyer purchased a parcel of real estate. Title has passed, but to date the buyer has not paid the purchase price in full, as originally agreed. If the seller wants to force payment, which remedy is the seller entitled to seek?
  - Attachment
  - Mechanic's lien
  - Lis pendens
  - Judgment
- A general contractor recently filed suit against a homeowner for nonpayment. The contractor now learns that the homeowner has listed the property for sale with a real estate professional. In this situation, which of the following will the contractor's attorney use to protect the contractor's interest?
  - Seller's lien
  - Buyer's lien
  - Assessment
  - Lis pendens
- Which statement *MOST* accurately describes special assessment liens?
  - They are general liens.
  - They are paid on a monthly basis.
  - They take priority over mechanics' liens.
  - They cannot be prepaid in full without penalty.
- Which of the following creates a lien on real estate?
  - Easement running with the land
  - Unpaid mortgage loan
  - License
  - Encroachment
- Which statement is *TRUE* of both a mortgage lien and a judgment lien?
  - It must be entered by the court.
  - It involves a debtor-creditor relationship.
  - It is a general lien.
  - It is an involuntary lien.
- A mechanic's lien is available to
  - accountants.
  - financial planners.
  - real estate professionals.
  - surveyors.
- The right of a defaulted taxpayer to recover property before its sale for unpaid taxes is
  - the statutory right of reinstatement.
  - the equitable right of appeal.
  - the statutory right of assessment.
  - the equitable right of redemption.
- Which of the following is a specific, involuntary, statutory lien?
  - Real estate tax lien
  - Income tax lien
  - Estate tax lien
  - Judgment lien
- General real estate taxes levied for the operation of the government are
  - assessment taxes.
  - ad valorem taxes.
  - special taxes.
  - improvement taxes.
- Properties on which real estate taxes must be paid include
  - public hospitals.
  - golf courses operated by the park district.
  - synagogues and churches.
  - apartment buildings.

## UNIT 14 QUIZ

- Which statement is *TRUE* of real estate closings in most states?
  - Closings are generally conducted by real estate professionals.
  - The buyer usually receives the rent for the day of closing.
  - The buyer must reimburse the seller for any title evidence provided by the seller.
  - The seller usually pays the expenses for the day of closing.
- All encumbrances and liens shown on the report of title, other than those waived or agreed to by the purchaser and listed in the contract, must be removed so that the title can be delivered free and clear. The removal of such encumbrances is typically the duty of
  - the buyer.
  - the seller.
  - the real estate professional.
  - the title company.
- Legal title *ALWAYS* passes from the seller to the buyer
  - on the date of execution of the deed.
  - when the closing statement has been signed.
  - when the deed is placed in escrow.
  - when the deed is delivered and accepted.
- Which item would a lender generally require at the closing?
  - Title insurance commitment
  - Market value appraisal
  - Application
  - Credit report
- A buyer purchases a home in an area where closings are traditionally conducted in escrow. Which item would a buyer deposit with the escrow agent before the closing date?
  - Deed to the property
  - Title evidence
  - Estoppel certificate
  - Cash needed to complete the purchase
- The Closing Disclosure must be used to illustrate all settlement charges for
  - every real estate transaction.
  - transactions financed by VA and FHA loans only.
  - residential transactions financed by federally related mortgage loans.
  - all transactions involving commercial property.
- A mortgage reduction certificate is executed by
  - an abstract company.
  - an attorney.
  - a lending institution.
  - a grantor.
- At closing, the principal amount of a purchaser's new mortgage loan is
  - a credit to the seller.
  - a credit to the buyer.
  - a debit to the seller.
  - a debit to the buyer.
- At closing, the earnest money left on deposit with a real estate broker is
  - a credit to the seller.
  - a credit to the buyer.
  - a balancing factor.
  - a debit to the buyer.
- The annual real estate taxes on a property amount to \$18,000. The seller has paid the taxes in advance for the calendar year. If the closing is set for June 15, which statement is *TRUE*?
  - Credit the seller \$8,250; debit the buyer \$9,750.
  - Credit the seller \$18,000; debit the buyer \$8,250.
  - Credit the buyer \$9,750; debit the seller \$9,750.
  - Credit the seller \$9,750; debit the buyer \$9,750.
- If a seller collected rent of \$900 from the buyer, payable in advance, on August 1, which statement is *TRUE* at the closing on August 15, if the closing date is an expense to the seller? (Use a 30-day month)
  - The seller owes the buyer \$900.
  - The buyer owes the seller \$900.
  - The seller owes the buyer \$450.
  - The buyer owes the seller \$450.
- Security deposits should be listed on a closing statement as a credit to
  - the buyer.
  - the seller.
  - the lender.
  - the real estate professional.
- A building was purchased for \$850,000, with 10% down and a loan for the balance. If the lender charged the buyer two discount points, how much cash did the buyer need at closing if the buyer incurred no other costs?
  - \$17,000
  - \$85,000
  - \$100,300
  - \$102,000
- Which charge noted on the Closing Disclosure must be the same or less than the charge noted on the Loan Estimate form?
  - Cost of settlement services when the lender selects the provider
  - Lender charges for taking and underwriting the loan
  - Cost of settlement services when the borrower selects the provider from the list provided by the lender
  - Cost of homeowners insurance
- At closing, the listing agent's commission is usually shown as
  - a credit to the seller.
  - a credit to the buyer.
  - a debit to the seller.
  - a debit to the buyer.
- At the closing of a real estate transaction, the person performing the settlement gave the buyer a credit for certain accrued items. These items were
  - bills relating to the property that had already been paid by the seller.
  - bills relating to the property that the buyer must pay.
  - all of the seller's real estate bills.
  - all of the buyer's real estate bills.
- At closing, an item prepaid by the seller is
  - debited to the seller.
  - evenly divided between the buyer and the seller.
  - credited to the buyer.
  - credited to the seller.
- The purpose of the Real Estate Settlement Procedures Act (RESPA) is to
  - make sure buyers do not borrow more than they can repay.
  - make real estate professionals more responsive to buyers' needs.
  - help buyers know how much money is required.
  - ensure that buyers know all settlement costs that will be charged to them.
- The document that provides the borrower with general information about settlement costs, RESPA provisions, and what happens at settlement is
  - What You Should Know About RESPA*.
  - Your Home Loan Toolkit*.
  - the Closing Disclosure form.
  - the Loan Estimate form.
- Under the TILA-RESPA Integrated Disclosure Rule (TRID), a lender must extend the closing how many days if the annual percentage rate (APR) has changed more than 0.125% before closing?
  - Two business days
  - Three business days
  - Four business days
  - Five business days

12. The buyers purchased a model home and all its furnishings and appliances by using

A. a package loan.  
B. a blanket loan.  
C. a FHA-insured loan.  
D. a buydown.
13. The primary activity of Freddie Mac is to

A. guarantee mortgages with the full faith and credit of the federal government.  
B. buy and pool blocks of conventional mortgages.  
C. act in tandem with Ginnie Mae to provide special assistance in times of tight money.  
D. buy and sell VA and FHA mortgages.
14. The federal Equal Credit Opportunity Act allows lenders to discriminate against potential borrowers on the basis of

A. preferred neighborhood.  
B. marital status.  
C. country of national origin.  
D. amount of income.
15. The buyers of a residence in Happy Hollow have a mortgage that allows them to borrow additional funds that will be secured by the home at any time. They have

A. a closed-end loan.  
B. an open-end loan.  
C. a provisional loan.  
D. a fully adjustable loan.
16. Programs to help families purchase or operate family farms are provided by

A. Ginnie Mae  
B. the Farm Service Agency.  
C. Fannie Mae  
D. the Federal Housing Finance Agency.
17. If a lender agrees to make a loan based on an 80% LTV, what is the amount of the loan if the property appraises for \$114,500 and the sales price is \$116,900?

A. \$83,200  
B. \$91,300  
C. \$91,600  
D. \$92,900
18. The document that sets forth the maximum loan guarantee to which a veteran is entitled is

A. the funding statement.  
B. the certificate of eligibility.  
C. the certificate of reasonable value.  
D. the certificate of discharge.
19. The law that requires lenders to find ways to help meet the housing needs of those of low and moderate incomes is

A. the Dodd-Frank Act.  
B. the Equal Credit Opportunity Act.  
C. the Community Reinvestment Act.  
D. the Real Estate Settlement Procedures Act.
20. Which of the following requires that all advertising that references mortgage financing terms contain certain disclosures?

A. Equal Credit Opportunity Act  
B. Fair Housing Act  
C. Community Reinvestment Act  
D. Truth in Lending Act (Regulation Z)

UNIT  
14

Closing the Real Estate Transaction

LEARNING OBJECTIVES

When you have completed this unit, you will be able to accomplish the following.

- › Describe the steps required to achieve conveyance of clear and marketable title, including compliance with all applicable laws.
- › Describe closing procedures and the respective roles of all parties.
- › Explain the Real Estate Settlement Procedures Act (RESPA) and the Mortgage Disclosure Improvement Act (MDIA).
- › Identify all buyer and seller charges and credits contained in a closing statement.
- › Explain the financial entries and mathematical calculations contained in a closing statement.

KEY TERMS

accrued items	electronic fund transfer (EFT)	mortgage servicing transfer statement
affiliated business arrangement (ABA)	escrow account	prepaid items
closing	escrow closing	prorations
Closing Disclosure	impound account	Real Estate Settlement Procedures Act (RESPA)
closing statement	Loan Estimate	survey
credit	Mortgage Disclosure Improvement Act (MDIA)	TILA-RESPA Integrated Disclosure Rule (TRID)
debit		

OVERVIEW

The conclusion of the real estate sales transaction is the **closing**, when title to the real estate is transferred in exchange for payment of the purchase price. Until closing preparations begin, a real estate professional’s relationship is primarily with the buyer or the seller. During the closing period, new players come on the scene: appraisers, inspectors, loan officers, insurance agents, and lawyers. Negotiations may continue, usually based on issues revealed by

A **sale-and-leaseback** arrangement can be used to finance large commercial or industrial properties. A **buydown** is a payment made at closing to reduce the interest rate on the loan.

A **home equity loan (home equity line of credit or HELOC)** is junior to the original lien.

The **Truth in Lending Act (TILA)** is implemented by **Regulation Z**, now enforced by the Consumer Financial Protection Bureau, and requires that, when a loan is secured by a residence, the lender must inform the borrower of the true cost of obtaining credit. The borrower has a **three-business-day right of rescission**. **Advertising** is strictly regulated, using **triggering terms** to mandate what must be disclosed, and there are civil and criminal penalties for violations.

The **Equal Credit Opportunity Act (ECOA)** prohibits **discrimination** in granting or arranging credit on the basis of race, color, religion, national origin, sex, marital status, age (as long as the applicant is not a minor), or receipt of public assistance.

The **Fair Credit Reporting Act (FCRA)** requires that reasons for a loan application rejection be provided to the applicant within 30 days and that the applicant be given the right to a free copy of any credit report that was considered in the loan application process.

The **Community Reinvestment Act (CRA)** requires financial institutions to help meet the need for affordable housing in their communities.

The **Real Estate Settlement Procedures Act (RESPA)** covers costs related to the closing of a residential transaction.

Automated underwriting (loan processing) programs provide loan approvals quickly and include Fannie Mae's *Desktop Underwriter* and Freddie Mac's *Loan Prospector*. A credit score may be used as part of a loan application evaluation process.

## UNIT 13 QUIZ

- The buyers purchased a residence for \$395,000, making a down payment of \$79,000 and obtaining a loan for the balance. The loan is
  - a nonconforming loan.
  - a package mortgage.
  - a balloon note.
  - a purchase money mortgage.
- A buyer purchased a new residence from a builder for \$350,000. The buyer made a down payment of \$30,000 and obtained a \$320,000 mortgage loan. The builder of the house paid the lender 3% of the loan balance for the first year and 2% for the second year. This represented a total savings for the buyer of \$16,000. What type of mortgage arrangement is this?
  - Open-end
  - Package
  - Blanket
  - Buydown
- Which of the following is a participant in the primary mortgage market?
  - Fannie Mae
  - Ginnie Mae
  - Credit union
  - Freddie Mac
- One of the federal laws requiring disclosure to a loan applicant who is rejected for a loan on the basis of a credit report is
  - the Real Estate Settlement Procedures Act.
  - the Community Reinvestment Act.
  - the Fair Credit Reporting Act.
  - the Truth in Lending Act.
- States are required to license mortgage loan originators by
  - HUD.
  - the SAFE Act.
  - FHA.
  - the OCC.
- The conservatorship of Fannie Mae and Freddie Mac is the responsibility of
  - the Federal Housing Finance Agency.
  - the Federal Housing Authority.
  - the Office of the Comptroller of the Currency.
  - the Federal Reserve System.
- What is the source of the rules that govern the use of real estate advertisements in all media, if they include mortgage financing terms??
  - Equal Credit Opportunity Act
  - Fair Lending Act
  - Community Reinvestment Act
  - Regulation Z of the Truth in Lending Act
- A developer received a loan that covers five parcels of real estate and provides for the release of the mortgage lien on each parcel when certain payments are made on the loan. This type of loan arrangement is called
  - the purchase money loan.
  - the blanket loan.
  - the package loan.
  - the wraparound loan.
- Funds for FHA-insured loans are usually provided by
  - the FHA.
  - the Federal Reserve.
  - approved lenders.
  - the seller.
- Regulation Z generally applies when a credit transaction is secured by
  - a commercial property.
  - a residence.
  - a business.
  - an agricultural property.
- What is the position of a home equity line of credit (HELOC) in relation to the original lien?
  - Equal
  - Junior
  - First in priority
  - No relationship

## UNIT 12 QUIZ

- A charge of three discount points on a \$120,000 loan equals
  - \$450.
  - \$3,600.
  - \$4,500.
  - \$116,400.
- A prospective buyer needs to borrow money to buy a house. The buyer applies for and obtains a real estate loan from a mortgage company. Then the buyer signs a note and a mortgage. In this example, the buyer is called
  - the mortgagor.
  - the beneficiary.
  - the mortgagee.
  - the vendor.
- A prospective buyer needs to borrow money to buy a house. The buyer applies for and obtains a real estate loan from a mortgage company. Then the buyer signs a note and a mortgage. In this example, the mortgage company is
  - the mortgagor.
  - the beneficiary.
  - the mortgagee.
  - the vendor.
- The borrower under a deed of trust is known as
  - the trustor.
  - the trustee.
  - the beneficiary.
  - the vendee.
- A loan in which the borrower makes only interest payments is called
  - a fixed-rate loan.
  - an adjustable-rate mortgage.
  - a straight loan.
  - a reverse mortgage.
- What type of law limits the interest rate that is allowed to be charged?
  - Trustee law
  - A usury law
  - The statute of frauds
  - Contract law
- After a foreclosure sale, the borrower who has defaulted on the loan may seek to pay off the mortgage debt plus any accrued interest and costs under what right?
  - Equitable redemption
  - Defeasance
  - Usury
  - Statutory redemption
- Which clause would give a lender the right to have all future installments become due upon default?
  - Escalation
  - Defeasance
  - Alienation
  - Acceleration
- What document is available to the mortgagor when the mortgage debt is completely repaid?
  - Satisfaction of mortgage
  - Defeasance certificate
  - Deed of trust
  - Mortgage estoppel
- Who is entitled to a reverse mortgage?
  - A homeowner age 62 or older
  - The owner of an unencumbered home
  - A homebuyer who cannot qualify for a regular loan
  - An investor who rents a home only to senior citizens
- A loan that provides for the full payment of the principal over the life of the loan is
  - a reverse mortgage.
  - an indexed loan.
  - an amortized loan.
  - a balloon payment.
- The provision in a financing instrument that requires the lender to execute a satisfaction of mortgage when a note has been fully paid is
  - a due-on-sale clause.
  - a defeasance clause.
  - an acceleration clause.
  - an alienation clause.
- Which of the following allows a mortgagee to proceed to a foreclosure sale without going to court first?
  - Waiver of redemption right
  - Power of sale
  - Alienation clause
  - Possession rights
- The mortgagee foreclosed on a property after the borrower defaulted on the loan payments. The unpaid balance of the loan at the time of the foreclosure sale was \$140,000, but at the foreclosure sale, the house sold for only \$129,000. If permitted by state law, what must the lender do to recover the \$11,000 the borrower still owes?
  - Sue for damages
  - Sue for specific performance
  - Seek a judgment by default
  - Seek a deficiency judgment
- Discount points on a mortgage are computed as a percentage of
  - the selling price.
  - the loan amount.
  - the closing costs.
  - the down payment.
- In one state, a lender holds a lien on real property offered as collateral for a loan. The borrower retains both legal and equitable title to real property. If the borrower defaults on the loan, the lender must go through formal foreclosure proceedings to recover the debt. This state can be *BEST* characterized as what kind of state?
  - Lien theory
  - Mortgage theory
  - Intermediate theory
  - Title theory
- In one state, a mortgagee holds legal title to real property offered as collateral for a loan, and the mortgagor retains the rights of possession and use. If the borrower defaults, the lender is entitled to immediate possession and rents. This state can be *BEST* characterized as what kind of state?
  - Lien theory
  - Mortgage theory
  - Intermediate theory
  - Title theory
- A homebuyer has a mortgage that provides for increasing payments over the life of the loan so that it can be paid off earlier than would be the case with a regular amortized loan. The homebuyer has
  - a mortgage with power of sale.
  - a growing-equity mortgage.
  - a balloon payment loan.
  - a reverse mortgage.
- A junior lien may become first in priority if the original lender agrees to execute
  - a deed of trust.
  - a subordination agreement.
  - a second mortgage agreement.
  - a call clause.
- A buyer purchased a home under an agreement that made the buyer personally obligated to continue making payments under the seller's existing mortgage. If the buyer defaults and the court sale of the property does not satisfy the debt, the buyer will be liable for making up the difference. The buyer has
  - purchased the home subject to the seller's mortgage.
  - assumed the seller's mortgage.
  - benefited from the alienation clause in the seller's mortgage.
  - benefited from the defeasance clause in the seller's mortgage.

20. A buyer signs a contract under which he is given the right to purchase a property for \$230,000 anytime in the next six months. The buyer pays the current owner \$3,000 at the time the contract is signed. Which of the following *BEST* describes this agreement?
- A. Contingency
  - B. Option
  - C. Installment
  - D. Sales

UNIT

12

Real Estate Financing

LEARNING OBJECTIVES

When you have completed this unit, you will be able to accomplish the following.

- › **Describe** the factors that contribute to housing affordability, including interest rates and ability to pay.
- › **Describe** the terms, conditions, and use of the promissory note.
- › **Explain** the elements and use of the mortgage and deed of trust, and the roles of the parties involved in each.
- › **Describe** the various types of real estate financing.
- › **Explain** the distinction between a judicial foreclosure and a non-judicial foreclosure, and the process involved in each.
- › **Describe** the various consumer protections related to homeownership.

KEY TERMS

acceleration clause	discount points	negotiable instrument
adjustable-rate mortgage (ARM)	equity	note
alienation clause	FICO® score	PITI (principal, interest, taxes, and insurance)
amortized loan	foreclosure	prepayment penalty
assumption of mortgage	growing-equity mortgage	promissory note
balloon payment	homeowners insurance	release deed
beneficiary	hypothecation	reverse mortgage
Comprehensive Loss Underwriting Exchange (CLUE)	index	satisfaction of mortgage
debt to income (DTI)	interest	short sale
deed in lieu of foreclosure	interest-only loan	straight loan
deed of reconveyance	loan origination fee	“subject to”
deed of trust	loan-to-value ratio (LTV)	trustee
defeasance clause	margin	trustor
deficiency judgment	mortgage	usury
	mortgagee	
	mortgagor	
	negative amortization	

## UNIT 11 QUIZ

- A legally enforceable agreement under which both parties promise to do something for each other is called
  - an escrow agreement.
  - a legal pledge.
  - a bilateral contract.
  - an option agreement.
- A person approaches an owner and says, "I'd like to buy your house." The owner says, "Sure," and they agree on a price. What kind of contract is this?
  - Implied
  - Unenforceable
  - Void
  - No contract
- A contract is said to be bilateral if
  - one of the parties is a minor.
  - the contract has yet to be fully performed.
  - only one party to the agreement is bound to act.
  - both parties to the contract exchange binding promises.
- During the period after a real estate sales contract is signed, but before title actually passes, the status of the contract is
  - voidable.
  - executory.
  - unilateral.
  - implied.
- A contract for the sale of real estate that does not state the consideration and provides no basis on which the consideration could be determined is considered
  - voidable.
  - executory.
  - void.
  - enforceable.
- A buyer and a seller sign a contract to purchase. The seller backs out, and the buyer sues for specific performance. What is the buyer seeking in this lawsuit?
  - Money damages
  - New contract
  - Deficiency judgment
  - Transfer of the property
- In a preprinted sales contract, several words were crossed out or inserted by the parties. To eliminate future controversy as to whether the changes were made before or after the contract was signed, the usual procedure is to
  - have both parties initial or sign in the margin near each change.
  - write a letter to each party listing the changes.
  - have each party write a letter to the other approving the changes.
  - redraw the entire contract.
- A buyer makes an offer on a seller's house and the seller accepts. Both parties sign the sales contract. At this point, the buyer has what type of title to the property?
  - Equitable
  - Voidable
  - Escrow
  - Contract
- The sales contract says the buyer will purchase only if an attorney approves the sale by the following Saturday. The attorney's approval is
  - a contingency.
  - a reservation.
  - a warranty.
  - a consideration.
- A real estate broker uses earnest money placed in the company trust account to pay for the rent owed on the brokerage's office. Using escrow funds for this purpose is
  - illegal, unless the client has approved the expenditure.
  - legal if the trust account is reimbursed by the end of the calendar month.
  - legal if the seller gives consent in writing.
  - illegal.
- An option to purchase binds which of the following parties?
  - Buyer only
  - Seller only
  - Neither buyer nor seller
  - Both buyer and seller
- A buyer and a seller enter into a real estate sales contract. Under the contract's terms, the buyer will pay the seller \$2,000 a month for 10 years. The seller will continue to hold legal title, while the buyer will live in the home and pay all real estate taxes, insurance premiums, and regular upkeep costs. What kind of contract do the buyer and seller have?
  - Option contract
  - Contract for mortgage
  - Unilateral contract
  - Land sales contract
- The purchaser of real estate under an installment contract
  - generally pays no interest charge.
  - receives title immediately.
  - is not required to pay property taxes for the duration of the contract.
  - has an equitable interest in the property's title.
- Under the statute of frauds, all contracts for the sale of real estate must be
  - originated by a real estate professional.
  - on preprinted forms.
  - in writing to be enforceable.
  - accompanied by earnest money deposits.
- If, upon the receipt of an offer to purchase a property, the seller makes a counteroffer, the prospective buyer is
  - bound by the original offer.
  - not able to counter the counteroffer.
  - bound by whichever offer is lower.
  - relieved of the original offer.
- A buyer makes an offer to purchase certain property listed with a real estate professional and leaves an escrow deposit with the real estate professional to show good faith. The real estate professional should
  - immediately apply the deposit to the listing expenses.
  - put the deposit in an account, as provided by state law.
  - give the deposit to the seller when the offer is presented.
  - put the deposit in the real estate professional's personal checking account.
- While suffering from a mental illness that caused delusions, hallucinations, and loss of memory, a person signed a contract to purchase real estate. Which statement regarding the contract to purchase is *TRUE*?
  - The contract is voidable.
  - The contract is void.
  - The contract lacks consent.
  - The contract is fully valid and enforceable.
- A real estate professional has found a buyer for a seller's home. The buyer has indicated in writing a willingness to buy the property for \$1,000 less than the asking price and has provided an earnest money check for \$5,000. The seller is out of town for the weekend, and the real estate professional has been unable to inform the seller of the signed document. At this point, there is
  - a voidable contract.
  - an offer.
  - an executory agreement.
  - an implied contract.
- A buyer and a seller agree on a purchase price of \$300,000 for a house. The contract contains a clause stating that "time is of the essence." Which statement is *TRUE*?
  - The closing must take place within a reasonable period before the stated date.
  - A "time is of the essence" clause is not binding on either party.
  - The closing date must be stated as a particular calendar date, and not simply as a formula, such as "two weeks after loan approval."
  - If the closing date passes and no closing takes place, the contract may be rescinded by the party who was ready to settle on the scheduled date.

20. A valid reason for terminating a buyer representation agreement is
- A. the desire of the buyer to see properties in an expanded area.
  - B. the death of the broker.
  - C. the agreement of the parties on increasing the price range of the buyer.
  - D. the death of the sales associate who worked with the buyer.

UNIT  
11

Real Estate Contracts

LEARNING OBJECTIVES

*When you have completed this unit, you will be able to accomplish the following.*

- › **Describe** the essential elements of a contract.
- › **Explain** the various means by which a contract may be enforced, terminated, assigned, or replaced.
- › **Describe** the primary written agreements and forms used in real estate sales and leasing.

KEY TERMS

amendment	executory contract	purchase money
assignment	express contract	mortgage
bilateral contract	fraud	rescission
breach of contract	implied contract	statute of frauds
consideration	land contract	suit for specific
contingencies	liquidated damages	performance
contract	misrepresentation	“time is of the essence”
counteroffer	mistake of fact or law	undue influence
disclosure	novation	unenforceable contract
duress	offer and acceptance	unilateral contract
earnest money	option	valid contract
enforceable contract	owner financing	void contract
executed contract		voidable contract

OVERVIEW

The real estate market is driven by contracts. Both seller and buyer representation agreements are contracts. An offer is the first half of a sales contract. Leases and management agreements are contracts. Every aspect of the real estate business involves contracts, and a real estate professional must know how a contract is created, what is required of the parties to the contract, and how the contract is concluded.

## UNIT 10 QUIZ

- A property listing taken by a real estate sales associate is technically an employment agreement between the seller and
  - the broker.
  - the local multiple listing service.
  - the sales associate.
  - the sales associate and broker together.
- Which of the following is a similarity between an exclusive agency listing and an exclusive right-to-sell listing?
  - Under each, the seller retains the right to sell the real estate without the broker's help and without paying the broker a commission.
  - Under each, the seller authorizes only one particular sales associate to show the property.
  - Both types of listings give the responsibility of representing the seller to one broker only.
  - Both types of listings are open listings.
- The listing agreement on a residential property states that it expires on May 2. Which event would terminate the listing before that date?
  - The agreement is renewed before May 2.
  - The owner becomes ill on April 29.
  - On April 15, the owner and agent cancel the agreement.
  - The house is destroyed by fire on May 3.
- A seller listed a property with a broker under an exclusive agency listing agreement. If the seller finds a buyer, the seller will owe the broker
  - no commission.
  - the full commission.
  - a partial commission.
  - only reimbursement for the broker's costs.
- A broker sold a residence for \$485,000 and received \$26,675 as commission in accordance with the terms of the listing agreement. What was the broker's commission rate?
  - 5%
  - 5.5%
  - 6%
  - 6.5%
- Under a brokerage agreement with a property owner, the broker is entitled to sell the property for any price, as long as the seller receives \$85,000. The broker may keep any amount over \$85,000 as a commission. This type of listing might be illegal and is called
  - an exclusive right-to-sell listing.
  - an exclusive agency listing.
  - an open listing.
  - a net listing.
- Which of the following is a similarity between an open listing and an exclusive agency listing?
  - Under each, the seller avoids paying the broker a commission if the seller sells the property to someone the broker did not procure.
  - Each grants a commission to any broker who procures a buyer for the seller's property.
  - Under each, the broker earns a commission regardless of who sells the property, as long as it is sold within the listing period.
  - Each grants the exclusive right to sell to whatever broker produces a buyer for the seller's property.
- The final decision on a property's asking price should be made by
  - the seller's broker.
  - the appraised value.
  - the seller.
  - the seller's attorney.
- Which statement is *TRUE* of a listing agreement?
  - It is an employment contract for the professional services of the broker.
  - It obligates the seller to transfer the property if the broker procures a ready, willing, and able buyer.
  - It obligates the broker to work diligently for both the seller and the buyer.
  - It automatically binds the owner, the broker, and the MLS to its agreed provisions.
- A broker sold a property that was owned by a bank that had acquired it through foreclosure, and the broker received a 6.5% commission. The broker gave the listing sales associate \$3,575, which was 30% of the firm's commission. What was the selling price of the property?
  - \$55,000
  - \$95,775
  - \$152,580
  - \$183,333
- A seller hired a broker under the terms of an open listing agreement. While that agreement was still in effect, the seller—without informing the first broker—hired another broker from a separate firm under an exclusive right-to-sell listing for the same property. If the first broker produces a buyer for the property whose offer the seller accepts, the seller must pay a full commission to
  - only the first broker.
  - only the second broker.
  - both brokers.
  - neither broker.
- A seller listed a residence with a broker. The broker brought an offer at full price and terms of the listing agreement from a buyer who is ready, willing, and able to pay cash for the property, but the seller rejected the buyer's offer. In this situation, the seller
  - must sell the property.
  - owes a commission to the broker.
  - is liable to the buyer for specific performance.
  - is liable to the buyer for compensatory damages.
- A buyer signed an agreement with a broker to compensate the broker even if the buyer purchases the property from a relative. This is called
  - an open buyer representation agreement.
  - an exclusive agency buyer representation agreement.
  - an exclusive buyer representation agreement.
  - an invalid agreement.
- A prospective buyer signs an agreement with a broker to find a property for the buyer, and the buyer agrees to work only with that broker. While this agreement is in effect,
  - only one sales associate of the broker can work with the buyer.
  - the broker can represent other buyers.
  - the broker cannot show the buyer a property that is listed by the broker.
  - the sales associate working with the buyer cannot work with other buyers.
- A seller sold property to a neighbor without the services of a real estate broker; however, the seller still owes a broker a commission because the seller signed
  - an exclusive agency listing agreement.
  - an open listing agreement.
  - an exclusive right-to-sell listing agreement.
  - a net listing agreement.
- Most states require that a real estate listing agreement contain
  - a multiple listing service (MLS) clause.
  - a definite contract termination date.
  - an automatic extension clause.
  - a broker protection clause.
- Which type of listing is prohibited in some states?
  - Exclusive right-to-sell
  - Net listing
  - Buyer representation
  - Open listing
- By executing a listing agreement with a seller, a real estate broker becomes
  - a procuring cause.
  - obligated to open a special trust account.
  - the agent of the seller.
  - responsible for sharing the commission.
- The provision in a contract with a property seller that gives additional authority to the broker and obligates the broker to alert other brokers to the availability of the property is
  - a joint listing clause.
  - a multiple listing clause.
  - a net listing clause.
  - an open listing clause.

10. A seller tells his agent in confidence that he must sell fast and may accept less than the list price. The agent tells a buyer the seller will accept up to \$5,000 less than the list price. Which is *TRUE*?
  - A. The agent has not violated any agency responsibilities to the seller.
  - B. The agent should have disclosed this information, regardless of its accuracy.
  - C. Disclosure was improper and possibly illegal, regardless of the agent's motive.
  - D. The relationship between the agent and the seller ends automatically if the purchaser submits an offer.
11. A buyer who is a client of the broker wants to purchase a house that the broker has listed. Which statement is *TRUE*?
  - A. The broker may proceed to write an offer on the property and submit it.
  - B. The broker should refer the buyer to another broker to negotiate the sale.
  - C. The seller and the buyer must be informed of the situation and agree in writing to the broker's representing both of them.
  - D. The buyer should not have been shown a house listed by the broker.
12. What does the phrase *the law of agency is a common law doctrine* mean?
  - A. It is a legal doctrine that is not unusual.
  - B. It is one of the rules enacted by legislatures and other governing bodies.
  - C. It is part of a body of law established by tradition and court decisions.
  - D. It may not be superseded by statutory law.
13. A broker helps a buyer and a seller with paperwork but does not represent either party. This relationship is
  - A. dual agency.
  - B. prohibited in all states because a broker must always represent one party.
  - C. a transactional brokerage.
  - D. a designated agency.

14. A real estate sales associate represents a buyer. At their first meeting, the buyer reveals plans to operate a dog-grooming business out of the purchased house. The sales associate did not check the local zoning ordinances to determine in which parts of town such a business could be conducted. Which common law duty did the sales associate violate?
  - A. Care
  - B. Obedience
  - C. Loyalty
  - D. Disclosure
15. A broker tells a buyer, "This home has the most beautiful river view." In fact, the view includes the river and the back of a shopping center. Which is *TRUE*?
  - A. The broker has committed fraud.
  - B. The broker is guilty of negligent misrepresentation.
  - C. The broker is guilty of intentional misrepresentation.
  - D. The broker is merely puffing.
16. A real estate broker's responsibility to keep the principal informed of all the facts that might affect a transaction is the duty of
  - A. care.
  - B. disclosure.
  - C. obedience.
  - D. accounting.
17. Which of the following is considered dual agency?
  - A. A broker acting for both parties in the same transaction
  - B. Two brokerage companies cooperating with each other
  - C. A broker representing more than one principal
  - D. A broker listing a property and then, after it is relisted with another broker, selling the same property
18. The relationship of broker to client in an agency relationship is that of
  - A. a trustee.
  - B. a subagent.
  - C. a fiduciary.
  - D. an attorney-in-fact.

19. A real estate broker acting as the agent of the seller
  - A. must promote and safeguard the seller's best interests.
  - B. can disclose the seller's minimum price.
  - C. should present to the seller only the highest offer for the property.
  - D. can accept an offer on behalf of the seller.
20. A broker is permitted to represent both the seller and the buyer in the same transaction when
  - A. the principals are not aware of such action.
  - B. the broker is a subagent rather than the agent of the seller.
  - C. commissions are collected from both parties.
  - D. both parties have been informed and agree in writing to the dual representation.

A **designated agent** (or **designated representative**) is a sales associate authorized by the broker to represent one party to a transaction, while a different sales associate in the same firm represents the other party to the transaction.

**Termination of agency** may be accomplished by the

- completion, performance, or fulfillment of purpose of agency;
- destruction or condemnation of the property;
- expiration of the terms of the agency;
- mutual agreement of all parties to the contract;
- breach by one of the parties, who may be liable for damages; or
- operation of law, as in the bankruptcy of the principal.

An **agency coupled with an interest** cannot be revoked by the principal or terminated upon the principal's death.

Statements to clients and customers should be clearly identified as **opinion** or **fact**. **Puffing** is legal exaggeration of a property's benefits, while **fraud** is the intentional misrepresentation of a material fact to harm or take advantage of another person.

A **negligent misrepresentation** occurs when a real estate professional **should have known** that a statement about a material fact was false and the real estate professional's misrepresentation was due to culpable (careless) negligence rather than simple (accidental) negligence.

The **seller** of residential property may have the duty to disclose any known **latent** (i.e., hidden) **defects** that threaten a building's structural soundness or an occupant's personal safety. In some states, an agent has an independent duty to conduct a **reasonably competent and diligent inspection** of the property and to disclose defects to prospective buyers. Disclosure of environmental hazards may be required.

**Stigmatized properties** may require an agent to consult an attorney. **Megan's Law** requires states to make available to the public information about how they can determine where persons convicted of sexual offenses live in the community.

## UNIT 9 QUIZ

1. In a real estate transaction, the term *fiduciary* typically refers to
  - A. the sale of real property.
  - B. the people who give someone else the legal power to act on their behalf.
  - C. the person who has legal power to act on behalf of another.
  - D. the agent's relationship to the principal.
2. The relationship between real estate broker and seller is generally what type of agency?
  - A. Special
  - B. General
  - C. Implied
  - D. Universal
3. Which statement is *TRUE* of a real estate broker acting as the agent of the seller?
  - A. The broker is obligated to render loyalty to the seller.
  - B. The broker can disclose confidential information about the seller to a buyer if it increases the likelihood of a sale.
  - C. The broker can agree to a change in price without the seller's approval.
  - D. The broker can accept a commission from the buyer without the seller's approval.
4. A real estate broker lists a home for sale for \$189,500. Later that same day, a prospective buyer comes into the broker's office and asks for general information about homes for sale in the \$130,000 to \$140,000 price range but refuses representation by the broker's company at this time. Based on these facts, which statement is *TRUE*?
  - A. Both the seller and the potential buyer are the broker's customers.
  - B. The seller is the broker's client; the buyer is a customer.
  - C. The broker owes fiduciary duties to both seller and buyer.
  - D. If the buyer later asks for buyer representation by the broker's firm, it will not be possible because of the firm's earlier agreement with the seller.
5. In a dual agency situation, if it is permitted by state law, a broker may represent both the seller and the buyer in the same transaction provided
  - A. the broker informs either the buyer or the seller of this fact.
  - B. the buyer and the seller are related by blood or marriage.
  - C. both parties consent in writing to the dual agency.
  - D. both parties are represented by attorneys.
6. Which event will terminate an agency in a broker-seller relationship?
  - A. The broker discovers that the market value of the property is such that an adequate commission will not be earned.
  - B. The owner declares personal bankruptcy.
  - C. The owner abandons the property.
  - D. The broker appoints other brokers to help sell the property.
7. Designated agency is *MOST* likely to occur when
  - A. there is a client-buyer and a customer-seller.
  - B. the seller and the buyer are represented by different companies.
  - C. both the buyer and the seller are customers.
  - D. the buyer and the seller are represented by the same company.
8. A real estate broker hired by an owner to sell a parcel of real estate must comply with
  - A. the common law of agency in the state in which the property owner lives.
  - B. a prospective buyer's instructions.
  - C. the concept of caveat emptor.
  - D. all lawful instructions of the owner.
9. Which of the following is a valid reason to terminate an agency relationship?
  - A. The agent found a home for a buyer to purchase, but the buyer didn't like it.
  - B. The buyer wanted to work with a new agent, but the terms of agency had not yet expired and the current agent did not agree to terminate.
  - C. The property was condemned.
  - D. The buyer got married.

14. On the sale of any property, a sales associate's compensation is based on the total commission paid to the broker. The sales associate receives 30% total commission paid to the broker. If a property sells for \$234,500 and the broker's commission rate is 6.5%, what is the sales associate's total compensation?  
A. \$15,242.50  
B. \$4,572.75  
C. \$10,669.75  
D. \$4,221.00
15. The federal law that makes contracts originated, negotiated, and executed over a combination of computer and cell phone enforceable is  
A. CAN-SPAM.  
B. Junk Fax Prevention Act.  
C. COPPA.  
D. UETA.
16. The amount of commission paid to a sales associate is determined by  
A. state law.  
B. the local real estate board.  
C. mutual agreement with the broker.  
D. mutual agreement with the client.
17. A broker was accused of violating antitrust laws. Of the following, the broker was *MOST* likely accused of  
A. not having an equal housing opportunity sign in the office window.  
B. undisclosed dual agency.  
C. price-fixing.  
D. dealing in unlicensed exchange services.
18. A real estate broker was responsible for a chain of events that resulted in the sale of a client's property. This is called  
A. pro forma.  
B. procuring cause.  
C. private offering.  
D. proffered offer.
19. A sales associate wants to be classified by the IRS as a qualified real estate agent—the equivalent of holding independent contractor status for tax purposes. The sales associate must  
A. receive substantially all income from the brokerage based on time worked, rather than production.  
B. perform all work supervised by the managing broker.  
C. hold a current IRS-issued license.  
D. have a written agreement with the broker stating that the sales associate will be treated as an employee for federal tax purposes.
20. A real estate sales associate, classified by the IRS as an independent contractor, receives  
A. a monthly salary or hourly wage.  
B. company-provided health insurance.  
C. a company-provided automobile.  
D. a negotiated share of commissions on transactions.

# UNIT 9

## Real Estate Agency

### LEARNING OBJECTIVES

*When you have completed this unit, you will be able to accomplish the following.*

- › Explain agency concepts and terminology.
- › Explain express and implied agency and an agent's fiduciary duties.
- › Define the types of agency and identify which, if any, are involved in real estate practice.
- › Describe an agent's duties to third-party customers, especially regarding misstatements, misrepresentation, and potential fraud.

### KEY TERMS

agency	express agreement	negligent
agent	fiduciary	misrepresentation
buyer representation agreement	fiduciary relationship	nonagent
buyer's agent	fraud	principal
client	general agent	puffing
customer	implied agency	single agency
designated agency	implied agreement	special agent
designated agent	latent defect	subagent
dual agency	law of agency	transaction broker
express agency	listing agreement	universal agent

### OVERVIEW

A real estate professional can represent a client as an **agent**, but in addition to the parties' assumptions and expectations, the real estate professional acts as a **fiduciary** and is subject to a wide range of legal and ethical requirements designed to protect the seller, the buyer, and the transaction itself. There are other **agency** relationships in the real estate business, including that of sales associate to the employing broker. We will look at the possible agency relationships in a real estate transaction, as well as other types of relationships that can be established.

## UNIT 8 QUIZ

- Which statement *BEST* explains this sentence: "To recover a commission for brokerage services, a broker must *be employed* by a client"?
  - The broker must work in a real estate office.
  - The client must make an express or implied agreement to pay a commission to the broker.
  - The broker must express an interest in representing the client.
  - The broker must have a sales associate employed in the office.
- Sales associates who are paid in a lump sum and who are personally responsible for paying their own taxes are probably treated for tax purposes as
  - employees.
  - buyer's agents.
  - independent contractors.
  - transactional brokers.
- A sales associate's contract with her broker states that she is not an employee. In the past year, less than half her income came from commissions, with the rest an hourly wage paid by the broker. The IRS would classify her as
  - self-employed.
  - an employee.
  - an independent contractor.
  - a part-time real estate salesperson.
- When acting as an employee rather than an independent contractor, a sales associate may be obligated to
  - list properties in the sales associate's own name.
  - work set hours.
  - accept a commission from another broker.
  - personally pay all withholding taxes.
- The personal assistant of a real estate sales associate must be paid by the broker who employs the sales associate. This means that
  - the personal assistant has a real estate license.
  - the sales associate doesn't make very much money.
  - the personal assistant is a part-time employee.
  - ultimate responsibility for the personal assistant's conduct in the performance of work-related activities lies with the sales associate.
- A broker would have the right to dictate which of the following to an independent contractor?
  - Number of hours the person would have to work
  - Work schedule the person would have to follow
  - Sales meetings the person would need to attend
  - Conduct in compliance with statutory law and regulations
- Two real estate professionals were found guilty of conspiring with each other to allocate real estate brokerage markets. A seller suffered an estimated \$90,000 loss because of their activities. If the seller brings a civil suit against the two real estate professionals, what can the seller expect to recover?
  - Nothing, because a civil suit cannot be brought for damages resulting from antitrust activities
  - Only \$90,000—the amount of actual damages the seller suffered
  - Actual damages plus attorney's fees and costs
  - \$270,000 plus attorney's fees and costs
- Two sales associates who work for the same firm agree to divide their town into a northern region and a southern region; one sales associate will handle listings in the north, and the other will handle listings in the south. Which statement is *TRUE*?
  - The agreement does not violate antitrust laws.
  - The agreement constitutes illegal price-fixing.
  - The two sales associates have violated the Sherman Antitrust Act and are liable for treble damages.
  - The two sales associates are guilty of a group boycott with regard to other sales associates in their firm.
- A state has recently updated its Rules and Regulations for the Real Estate Profession. Which statement is most likely *TRUE* regarding this update?
  - The rules and regulations are state laws enacted by the legislature.
  - The rules and regulations do not have the same force and effect as the statutory license law.
  - The rules and regulations have the same force and effect as the license law itself.
  - The rules and regulations are not enforceable against real estate professionals.
- A REALTOR® is *BEST* described as an individual who is
  - a real estate professional who acts as a point of contact between two or more people in negotiating the sale, purchase, or rental of property.
  - any real estate professional who assists buyers, sellers, landlords, or tenants in any real estate transaction.
  - a member of the National Association of Real Estate Brokers who specializes in residential properties.
  - a real estate licensee and a member of the National Association of REALTORS® (NAR).
- A broker has established the following office policy: "All listings taken by any sales associate of this real estate brokerage must include compensation based on a 7% commission. No lower commission rate is acceptable." If the broker attempts to impose this uniform commission requirement, which statement is *TRUE*?
  - A homeowner may sue the broker for violating the antitrust law's prohibition against price-fixing.
  - The sales associates of the brokerage will not be bound by the requirement and may negotiate any commission rate they choose.
  - The broker must present the uniform commission policy to the local professional association for approval.
  - The broker may, as a matter of office policy, legally set the minimum commission rate acceptable for the firm.
- A real estate company has adopted a 100% commission plan. The monthly desk rent required of sales associates is \$1,500, payable on the last day of the month. In August, a sales associate closed a transaction that earned a commission of \$11,370 and a second transaction that earned a commission of \$6,875. The sales associate's additional expenses for the month were \$2,170. How much of the total monthly income did the sales associate keep?
  - \$14,575
  - \$16,075
  - \$16,745
  - \$18,245
- A sales associate took a listing on a house that sold for \$329,985. The commission rate was 5%. A sales associate employed by another broker found the buyer. The seller's broker received 60% of the commission on the sale; the buyer's broker received 40%. If the seller's broker kept 30% and paid the seller's sales associate the remainder, how much did the seller's sales associate earn on this sale?
  - \$4,346.85
  - \$5,774.74
  - \$6,929.68
  - \$8,249.00

## UNIT 7 QUIZ

- A title search in the public records may be conducted by
  - anyone.
  - attorneys and abstractors only.
  - attorneys, abstractors, and real estate professionals only.
  - anyone who obtains a court order under the Freedom of Information Act.
- Which statement *BEST* explains why instruments affecting real estate are recorded?
  - Recording gives constructive notice to the world of the rights and interests claimed in the identified parcel of real estate.
  - Failing to record will void the transfer.
  - The instruments must be recorded to comply with the terms of the statute of frauds.
  - Recording proves the execution of the instrument.
- A purchaser went to the county building to check the recorder's records, which showed that the seller was the grantee in the last recorded deed and that no mortgage was on record against the property. The purchaser may assume which of the following?
  - All taxes are paid and no judgments are outstanding.
  - The seller has good title.
  - The seller did not mortgage the property.
  - No one else is occupying the property.
- The date and time a document was recorded help establish which of the following?
  - Priority
  - Abstract of title
  - Subrogation
  - Marketable title
- A buyer bought a house, received a deed, and moved into the residence but neglected to record the document. One week later, the seller died and the heirs in another city, unaware that the property had been sold, conveyed title to a relative, who recorded the deed. Who owns the property?
  - The buyer
  - The relative
  - The seller's heirs
  - Both the buyer and the relative
- A property with encumbrances that will outlast the closing
  - cannot be sold.
  - can be sold only if title insurance is provided.
  - cannot have a deed recorded without a survey.
  - can be sold if a buyer agrees to take it subject to the encumbrances.
- Which of the following would be acceptable evidence of ownership?
  - Broker's opinion
  - Deed to the current owner signed by the last seller
  - Land survey
  - Title insurance policy
- Chain of title is *MOST* accurately defined as
  - the record of a property's ownership.
  - a report of the contents of the public record, including all legal proceedings, regarding a particular property.
  - an instrument or document that protects the insured parties (subject to specific exceptions) against defects in the record of a property's ownership.
  - the examination of the record and hidden risks such as forgeries, undisclosed heirs, errors in the public records, and so on.
- A seller delivered title to a buyer at closing. A title search had disclosed no serious defects, and the title did not appear to be based on doubtful questions of law or fact or to expose the buyer to possible litigation. The seller's title did not appear to present a threat to the buyer's quiet enjoyment, and the title insurance policy provided was sufficient to convince a reasonably well-informed person that the property could be resold. The title conveyed would commonly be referred to as
  - a certificate of title.
  - an abstract of title.
  - a marketable title.
  - an attorney's opinion of title.
- The person who prepares an abstract of title for a parcel of real estate
  - searches the public records and then summarizes the events and proceedings that affect title.
  - insures the condition of the title.
  - inspects the property.
  - issues title insurance.
- Homeowners are frantic because they want to sell their property and the deed is missing. Which of the following is *TRUE*?
  - They may need to sue for quiet title.
  - They must buy title insurance.
  - They do not need the original deed if it has been recorded.
  - They should execute a replacement deed to themselves.
- Mortgagee title policies protect which parties against loss?
  - Buyers
  - Sellers
  - Lenders
  - Buyers and lenders
- Which of the following are traditionally covered by a standard title insurance policy?
  - Improperly delivered deeds
  - Changes in land use because of zoning ordinances
  - Unrecorded liens not known to the policyholder
  - Unrecorded rights of persons in possession
- A written summary of the history of all conveyances and legal proceedings affecting a specific parcel of real estate is called
  - an adjustment of title.
  - a certificate of title.
  - an abstract of title.
  - a title insurance policy.
- Which of the following is only covered by an extended coverage title insurance policy?
  - Forged documents
  - Incorrect marital statements
  - Unrecorded rights of parties in possession
  - Incompetent grantors
- Documents referred to as title evidence include
  - policies of title insurance.
  - general warranty deeds.
  - security agreements.
  - special warranty deeds.
- Public records are important because they
  - are national.
  - guarantee marketable title.
  - establish priority of liens.
  - provide actual notice of interests in the identified property.
- Property owner A sells a portion of the property to B. B promptly records the deed from A in the appropriate county office. If A tries to sell the same portion of property to C, which of the following statements is *TRUE*?
  - C has been given constructive notice of the prior sale because B promptly recorded the deed.
  - C has been given actual notice of the prior sale because B promptly recorded the deed.
  - Because C's purchase of the property is the more recent, it will have priority over B's interest, regardless of when B recorded the deed.
  - Because C purchased the property from its rightful owner, C is presumed by law to be aware of B's prior interest.
- The *BEST* reason for a buyer to obtain title insurance is
  - that the mortgage lender requires it.
  - to ensure that the seller can deliver marketable title.
  - to ensure that the abstractor has prepared a complete summary of title.
  - to pay future liens that may be filed.
- A mortgagee received a title insurance policy on the property a buyer is pledging as security for the mortgage loan. Which of the following is *TRUE*?
  - The policy is issued for the benefit of the buyer.
  - The policy guarantees that the buyer's equity will be protected.
  - The amount of coverage is commensurate with the loan amount.
  - The amount of coverage increases as the borrower grows older.

## UNIT 6 QUIZ

- The basic requirements for a valid conveyance are governed by
  - state law.
  - local custom.
  - national law.
  - the law of descent.
- Every deed must be signed by
  - the grantor.
  - the grantee.
  - the grantor and grantee.
  - the devisee.
- A 15-year-old recently inherited a parcel of real estate and has decided to sell it. If the 15-year-old executes a deed conveying the property to a purchaser, such a conveyance would be
  - valid.
  - void.
  - invalid.
  - voidable.
- A form authorizing one person to execute documents for another is called
  - a power of attorney.
  - a release deed.
  - a quitclaim deed.
  - a power to represent.
- The grantee receives greatest protection with what type of deed?
  - Quitclaim
  - General warranty
  - Bargain and sale with covenant
  - Executor's
- Party Y receives a deed from party X. The granting clause of the deed states, "I hereby remise, release, alienate, and convey to Y the following real property." What type of deed has Y received?
  - Special warranty
  - Quitclaim
  - General warranty
  - Bargain and sale
- Under the covenant of quiet enjoyment, a grantor
  - promises to obtain and deliver any instrument needed to make the title good.
  - warrants that the property is free from liens and encumbrances.
  - warrants that he or she is the owner and has the right to convey title to the property.
  - ensures that the title will be good against the title claims of third parties.
- Which type of deed merely implies but does *NOT* specifically warrant that the grantor holds good title to the property?
  - Special warranty
  - Bargain and sale
  - Quitclaim
  - Trust deed
- At which of the following steps did title to the house actually transfer or pass to B?
 

Step 1: A decided to convey a house to B.

Step 2: A signed a deed transferring title to B.

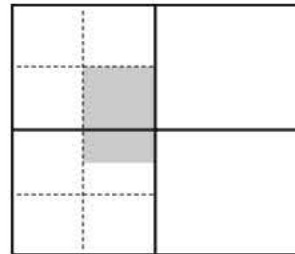
Step 3: A gave the signed deed to B, who accepted it.

Step 4: B took the deed to the county recorder's office and had it recorded.

  - Step 1
  - Step 2
  - Step 3
  - Step 4
- P signed a deed transferring ownership of P's house to Q. To provide evidence that P's signature was genuine, P executed a declaration before a notary. This declaration is known as
  - an affidavit.
  - an acknowledgment.
  - an affirmation.
  - an estoppel.
- Title to real estate may be transferred during a person's lifetime by
  - devise.
  - descent.
  - involuntary alienation.
  - escheat.
- A resident of Denver bought acreage in a distant county, never went to see the acreage, and did not use the ground. An artist moved a mobile home onto the land, had a water well drilled, and lived there for 22 years. The artist may become the owner of the land if the artist is in compliance with the state law regarding
  - requirements for a valid conveyance.
  - adverse possession.
  - avulsion.
  - voluntary alienation.
- Eminent domain and escheat are two examples of
  - voluntary alienation.
  - adverse possession.
  - transfers of title by descent.
  - involuntary alienation.
- A deed contains a promise that the title conveyed is good and a promise to obtain and deliver any documents necessary to ensure good title. This deed contains an example of which covenant?
  - Further assurances
  - Seisin
  - Quiet enjoyment
  - Warranty forever
- A deed contains a guarantee that the grantor will compensate the grantee for any loss resulting from the title's failure in the future. This is an example of which covenant?
  - Warranty forever
  - Further assurance
  - Quiet enjoyment
  - Seisin
- A person who has died without a will has died
  - testate.
  - in valid conveyance.
  - intestate.
  - under the acknowledgment clause.
- Title to real estate can be transferred upon death by what type of document?
  - Warranty deed
  - Special warranty deed
  - Quitclaim deed
  - Will
- An owner of real estate was declared legally incompetent and was committed to a state mental institution. While institutionalized, the owner wrote and executed a will. The owner died while still institutionalized and was survived by a spouse and three children. The real estate will pass
  - to the owner's spouse.
  - to the heirs mentioned in the owner's will.
  - according to the state laws of descent.
  - to the state.
- Generally, where does a probate proceeding involving real property take place?
  - Only in the county in which the property is located
  - Only in the county in which the decedent resided
  - In both the county where the decedent resided and the county in which the property is located
  - In the county in which the executor or the beneficiary resides
- A deed states that the grantors are conveying all their rights and interests to the grantees to have and to hold. This is communicated in
  - the acknowledgment clause.
  - the restriction clause.
  - the covenant of seisin.
  - the habendum clause.

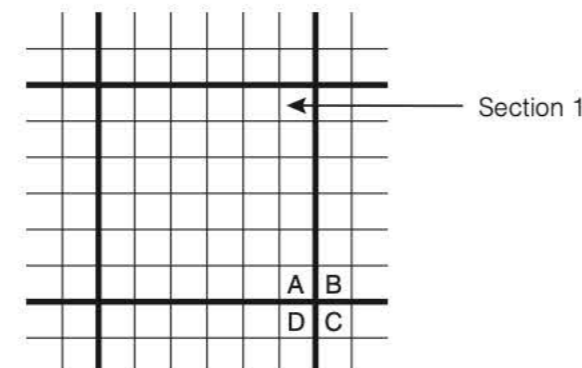
## UNIT 5 QUIZ

1. What is the proper description of this shaded area of a section using the rectangular survey system?



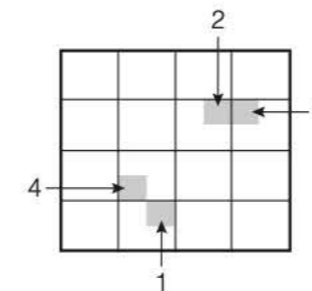
- A. SW $\frac{1}{4}$  of the NE $\frac{1}{4}$  and the N $\frac{1}{2}$  of the SE $\frac{1}{4}$  of the SW $\frac{1}{4}$   
 B. N $\frac{1}{2}$  of the NE $\frac{1}{4}$  of the SW $\frac{1}{4}$  and the SE $\frac{1}{4}$  of the NW $\frac{1}{4}$   
 C. SW $\frac{1}{4}$  of the SE $\frac{1}{4}$  of the NW $\frac{1}{4}$  and the N $\frac{1}{2}$  of the NE $\frac{1}{4}$  of the SW $\frac{1}{4}$   
 D. S $\frac{1}{2}$  of the SW $\frac{1}{4}$  of the NE $\frac{1}{4}$  and the NE $\frac{1}{4}$  of the NW $\frac{1}{4}$  of the SE $\frac{1}{4}$
2. When surveying land, a surveyor refers to the principal meridian that is  
 A. furthest from the land being surveyed.  
 B. in the same state as the land being surveyed.  
 C. not more than 40 townships or 15 ranges distant from the land being surveyed.  
 D. within the rectangular survey system area in which the land being surveyed is located.
3. The N $\frac{1}{2}$  of the SW $\frac{1}{4}$  of a section contains how many acres?  
 A. 20  
 B. 40  
 C. 60  
 D. 80
4. In describing real estate, the method that may use a property's physical features to determine boundaries and measurements is  
 A. rectangular survey.  
 B. metes and bounds.  
 C. government survey.  
 D. lot and block.

Questions 5 through 8 refer to the following illustration of one complete township and parts of the adjacent townships.



5. The section marked A is which of the following?  
 A. School section  
 B. Section 31  
 C. Section 36  
 D. Government lot
6. Which of the following is Section 6?  
 A. A  
 B. B  
 C. C  
 D. D
7. The section directly below C is  
 A. Section 7.  
 B. Section 12.  
 C. Section 25.  
 D. Section 30.
8. Which of the following is Section D?  
 A. Section 1  
 B. Section 6  
 C. Section 31  
 D. Section 36

9. Which of these shaded areas of a section depicts the NE $\frac{1}{4}$  of the SE $\frac{1}{4}$  of the SW $\frac{1}{4}$ ?



- A. Area 1  
 B. Area 2  
 C. Area 3  
 D. Area 4
10. A buyer purchased a half-acre parcel for \$2.15 per square foot. What was the selling price of the parcel?  
 A. \$774  
 B. \$1,376  
 C. \$46,827  
 D. \$93,654
11. How many acres are contained in the tract described as "beginning at the NW corner of the SW $\frac{1}{4}$ , then south along the west line to the SW corner of the section, then east along the south line of the section 2,640 feet, more or less, to the SE corner of the said SW $\frac{1}{4}$ , then in a straight line to the POB"?  
 A. 80 acres  
 B. 90 acres  
 C. 100 acres  
 D. 160 acres
12. If a farm described as "the NW $\frac{1}{4}$  of the SE $\frac{1}{4}$  of Section 10, Township 2 North, Range 3 West of the 6th. P.M." sold for \$4,500 an acre, what was the total sales price?  
 A. \$45,000  
 B. \$90,000  
 C. \$135,000  
 D. \$180,000
13. As a legal description, "the northwest  $\frac{1}{4}$  of the southwest  $\frac{1}{4}$  of Section 6, Township 4 North, Range 7 West" is defective because it contains no reference to  
 A. lot numbers.  
 B. boundary lines.  
 C. a principal meridian.  
 D. a record of survey.

14. A buyer purchases 4.5 acres of land for \$78,400. An adjoining owner wants to purchase a strip of this land measuring 150 feet by 100 feet. What should this strip cost the adjoining owner if it is sold for the same price per square foot originally paid?  
 A. \$3,000  
 B. \$6,000  
 C. \$7,800  
 D. \$9,400
15. Which of the following are *NOT* basic components of a metes-and-bounds description?  
 A. Tangible and intangible monuments  
 B. Base lines, principal meridians, and townships  
 C. Degrees, minutes, and seconds  
 D. Points of beginning
16. A property contains 10 acres. How many lots of not less than 50 feet by 100 feet can be subdivided from the property if 26,000 square feet were dedicated for roads?  
 A. 80  
 B. 81  
 C. 82  
 D. 83
17. A parcel of land is 400 feet by 640 feet. The parcel is cut in half diagonally by a stream. How many acres are in each half of the parcel?  
 A. 2.75  
 B. 2.94  
 C. 5.51  
 D. 5.88
18. What is the shortest distance between Section 1 and Section 36 in the same township?  
 A. Three miles  
 B. Four miles  
 C. Five miles  
 D. Six miles
19. In any township, what is the number of the section designated as the school section?  
 A. 1  
 B. 16  
 C. 25  
 D. 36
20. The *LEAST* specific method for identifying real property is  
 A. rectangular survey.  
 B. metes and bounds.  
 C. street address.  
 D. lot and block.

10. An owner purchased an interest in a house in Beachfront. The owner is entitled to the right of possession only between July 10 and August 4 of each year. Which of the following is *MOST* likely the type of ownership that has been purchased?
- A. Cooperative
  - B. Condominium
  - C. Time-share
  - D. Partnership
11. A corporation is a legal entity, recognized as an artificial person. Property owned solely by the corporation is owned in
- A. trust.
  - B. partnership.
  - C. severalty.
  - D. survivorship tenancy.
12. Which of the following refers to ownership by one person?
- A. Tenancy by the entirety
  - B. Community property
  - C. Tenancy in common
  - D. Severalty
13. A married couple co-owns a farm and has the right of survivorship. This arrangement is *MOST* likely
- A. severalty ownership.
  - B. community property.
  - C. a tenancy in common.
  - D. an estate by the entirety.
14. The real property interest that takes the form of personal property is
- A. ownership in severalty.
  - B. cooperative unit ownership.
  - C. condominium unit ownership.
  - D. tenancy in common.
15. Two people are co-owners of a small office building with the right of survivorship. One of the co-owners dies intestate and leaves nothing to be distributed to heirs. Which of the following would explain why the surviving co-owner acquired the deceased's interest?
- A. Severalty
  - B. Joint tenancy
  - C. Community property
  - D. Condominium
16. Which of the following is *MOST* likely evidence of ownership in a cooperative?
- A. Tax bill for an individual unit
  - B. Existence of a reverter clause
  - C. Shareholder stock
  - D. Right of first refusal
17. An ownership interest that can be an estate interest or a right of use is
- A. a leasehold.
  - B. a time-share.
  - C. a condominium.
  - D. a cooperative.
18. Which statement applies to both joint tenancy and tenancy by the entirety?
- A. There is no right to file a partition suit.
  - B. The last survivor becomes a severalty owner.
  - C. A deed signed by one owner will convey a fractional interest.
  - D. A deed will not convey any interest unless signed by both spouses.
19. Which of the following is a form of sole ownership?
- A. Tenancy in common
  - B. Ownership in severalty
  - C. Tenancy by the entirety
  - D. Community property
20. If property is held by two or more owners as joint tenants, the interest of a deceased co-owner will be passed to
- A. the surviving owner or owners.
  - B. the heirs of the deceased.
  - C. the state, under the law of escheat.
  - D. the trust under which the property was owned.

# UNIT 5

## Land Description

### LEARNING OBJECTIVES

When you have completed this unit, you will be able to accomplish the following.

- **Identify** the methods used for describing real estate.
- **Explain** the process involved in identifying and measuring property rights including those above and below the surface.

### KEY TERMS

air lots	metes-and-bounds	rectangular (government)
base lines	method	survey system
benchmarks	monuments	sections
datum	plat map	survey
legal description	point of beginning (POB)	tiers
lot-and-block (recorded plat) method	principal meridians	township lines
	ranges	townships

### OVERVIEW

While usually enough to find the location of a property or building, a street address is not precise enough to define the perimeter of a parcel of land in a way that excludes all other parcels. A street address will not indicate how large the property is, or where it begins and ends. For real estate to be the subject of a transaction, the description of the property must be *legally sufficient*—that is, the property must be described in a way that will enable a sales contract, lease, deed, or mortgage document to be legally enforceable.

A **legal description** is a detailed way of describing a parcel of land in a document that will be accepted in a court of law. The description is based on information collected through a **survey**—the process by which boundaries are measured by calculating the dimensions and area to determine the exact location of a piece of land. Courts have stated that a description is *legally sufficient* if it allows a surveyor to *locate* the parcel. In this context, *locate* means the surveyor must be able to define the exact boundaries of the property. Several alternate systems of identification have been developed to express a legal description of real es



to hire an outside property management firm. **Maintenance** of common elements is funded by **fees** charged to each unit owner.

In a **cooperative**, title to the land and the building is held by a corporation, which sells shares of stock to prospective tenants. A purchaser of stock becomes a **shareholder** in the corporation and receives a **proprietary lease** to the apartment for the life of the corporation. The stock is owned as personal property and not real estate.

A **time-share** permits the sale of an **estate** or **use** interest that allows occupancy of a property during a specific period of time, typically weekly. **Time-share** ownership permits multiple purchasers to buy interests in real estate, a form of ownership most commonly found with resort property.

## UNIT 4 QUIZ

- The four unities of possession, interest, time, and title are associated with which of the following?
  - Community property
  - Severalty ownership
  - Tenants in common
  - Joint tenancy
- A parcel of property was purchased by two friends. The deed they received from the seller at closing transferred the property without stipulating a form of ownership. The two friends took title as which of the following?
  - Joint tenants
  - Tenants in common
  - Tenants by the entirety
  - Community property owners
- Three people are joint tenants with rights of survivorship in a tract of land. One owner conveys his interest to a friend. Which statement is *TRUE*?
  - The other two owners remain joint tenants.
  - The new owner has severalty ownership.
  - They all become tenants in common.
  - They all become joint tenants.
- A man owns one of 20 units in fee simple, along with a 5% ownership share in the parking facilities, recreation center, and grounds. What kind of property does he own?
  - Cooperative
  - Condominium
  - Time-share
  - Land trust
- A trust is a legal arrangement in which property is held for the benefit of a third party by
  - a beneficiary.
  - a trustor.
  - a trustee.
  - an attorney-in-fact.
- According to some states, any real property that either spouse owns at the time of marriage remains separate property. Further, any real property acquired by either spouse during the marriage (except by gift or inheritance or with the proceeds of separate property) belongs to both of them equally. What is this form of ownership called?
  - Partnership
  - Joint tenancy
  - Tenancy by the entirety
  - Community property
- Three people were concurrent owners of a parcel of real estate. When one of the owners died, that interest became part of the deceased's estate. The deceased was
  - a joint tenant.
  - a tenant in common.
  - a tenant by the entirety.
  - a severalty owner.
- A legal arrangement under which the title to real property is held to protect the interests of a beneficiary is
  - a trust.
  - a corporation.
  - a limited partnership.
  - a general partnership.
- A person lives in an apartment building. The land and structures are owned by a corporation, with one mortgage loan securing the entire property. Like the other residents, this person owns stock in the corporation and has a lease to the apartment. This type of ownership is called
  - condominium.
  - planned unit development.
  - time-share.
  - cooperative.

## UNIT 3 QUIZ

1. The right of a government body to take ownership of real estate for public use is called
  - A. escheat.
  - B. eminent domain.
  - C. condemnation.
  - D. police power.
2. One who has ownership rights of real estate that could continue forever and which provide that no other person can claim to be the owner of or have any ownership control over the property has
  - A. fee simple absolute.
  - B. life estate.
  - C. determinable fee.
  - D. condition subsequent.
3. The owner of fee simple title to a vacant lot adjacent to a hospital decided to make a gift of the lot to the hospital. The deed conveyed ownership of the lot to the hospital "so long as it is used for hospital purposes." After completion of the gift, the hospital will own
  - A. a fee simple absolute estate.
  - B. a license.
  - C. a fee simple determinable.
  - D. a leasehold estate.
4. Your neighbors use your driveway to reach the garage on their property. Your attorney explains that the neighbors' real estate includes an easement appurtenant giving them the right to do this. Your property is
  - A. the leasehold interest.
  - B. the dominant tenement.
  - C. the servient tenement.
  - D. the license property.
5. A license is an example of
  - A. an easement appurtenant.
  - B. an encroachment.
  - C. a personal privilege.
  - D. a restriction.
6. An easement appurtenant
  - A. terminates with the sale of the property.
  - B. is a right-of-way for a utility company.
  - C. is revocable.
  - D. runs with the land.
7. A property on Main Street that was formerly a retail store will become the site of a new city hall, made possible by the government's power of
  - A. escheat.
  - B. possibility of reverter.
  - C. eminent domain.
  - D. taxation.
8. Which of the following is an example of governmental power?
  - A. Escheat
  - B. CC&Rs
  - C. License
  - D. Lis pendens
9. A property owner who has the legal right to use a neighbor's land holds
  - A. an estate in land.
  - B. an easement.
  - C. a police power.
  - D. an encroachment.
10. Which of the following is a legal life estate?
  - A. Leasehold
  - B. Fee simple absolute
  - C. Homestead
  - D. Determinable fee
11. An owner conveys ownership of a residence to a church but reserves a life estate in the residence. The future interest held by the church is
  - A. a pur autre vie.
  - B. a remainder.
  - C. a reversion.
  - D. a leasehold.
12. The new owner of a property installs a fence on the property. By mistake, the fence extends one foot over the lot line onto a neighbor's property. The fence is an example of
  - A. a license.
  - B. an encroachment.
  - C. an easement by necessity.
  - D. an easement by prescription.
13. A homeowner may be allowed certain protection from judgments of creditors as a result of the state's
  - A. littoral rights.
  - B. curtesy rights.
  - C. homestead rights.
  - D. dower rights.
14. A person has permission from a property owner to hike on the owner's property during the autumn months. The hiker has
  - A. an easement by necessity.
  - B. an easement by condemnation.
  - C. riparian rights.
  - D. a license.
15. A homestead is a legal life estate in real estate that is
  - A. leased by renters.
  - B. occupied as the family home.
  - C. used as a vacation home.
  - D. a secondary residence.
16. Because a homeowner failed to pay the real estate taxes on time, the taxing authority imposed a claim against the homeowner's property. This claim is known as
  - A. a deed restriction.
  - B. a lien.
  - C. an easement.
  - D. a reversionary interest.
17. The type of easement that is a right-of-way for a utility company's power lines is
  - A. an easement in gross.
  - B. an easement by necessity.
  - C. an easement by prescription.
  - D. a nonassignable easement.
18. The process by which government takes control of a property after the owner dies without a will or lawful heirs is
  - A. escheat.
  - B. lis pendens.
  - C. condemnation.
  - D. taxation.
19. A landowner has divided a large parcel of land into smaller parcels and has recently sold a tract near a nature preserve that is landlocked and cannot be entered except through one of the other tracts. The buyer of that property will probably be granted what type of easement by court action?
  - A. Easement by necessity
  - B. Easement in gross
  - C. Easement by prescription
  - D. Easement by condemnation
20. An easement is terminated by
  - A. transfer of the servient tenement to a new owner.
  - B. creation of a prescriptive easement.
  - C. transfer of the dominant tenement to a new owner.
  - D. release of the right of easement to the servient tenement.

## UNIT 2 QUIZ

- Personal property generally includes
  - trees.
  - air rights.
  - annual crops.
  - mineral rights.
- A bookstore rents space in a commercial building. The bookstore has large reading tables fastened to the walls and bookshelves bolted to both the ceiling and the floor that create aisles from the front of the store to the back. These were all installed by the bookstore owner. Which of the following *BEST* characterizes the contents of the bookstore?
  - The shelves and tables are trade fixtures and will transfer when the property owner sells the building.
  - The shelves and tables are trade fixtures and may properly be removed by the bookstore's owner before the lease expires, with the tenant responsible to the landlord for any damage that the removal causes to the premises.
  - Because the business is a tenant, the shelves and tables are fixtures and may not be removed except with the building owner's permission.
  - Because the shelves and tables are attached to the building, they are treated the same as other fixtures.
- The term *nonhomogeneity* refers to
  - scarcity.
  - immobility.
  - uniqueness.
  - indestructibility.
- Another term for *personal property* is
  - realty.
  - fixtures.
  - chattels.
  - fructus naturales.
- A property owner wants to use water from a river that runs through the property to irrigate a potato field. To do so, the owner is required by state law to submit an application to the Department of Water Resources describing in detail the plan for beneficial use of the water. If the department approves the owner's application, it will issue a permit allowing a limited amount of river water to be diverted onto the property. Based on these facts, it can be assumed that this property owner's state relies on which rule of law?
  - Riparian rights
  - Littoral rights
  - Doctrine of prior appropriation
  - Doctrine of highest and best use
- The owner of a piece of vacant land removed and sold all the topsoil, limestone, and gravel. At the owner's death, which is *TRUE*?
  - The property no longer exists.
  - The heir of the deceased inherits the property as is.
  - The heir of the deceased owns the gravel, limestone, and topsoil, no matter where it is.
  - The estate of the deceased must restore the property to its original condition.
- In determining whether an item is real or personal property, a court would consider which of the following?
  - Any relevant agreement of the parties in their contract of sale
  - The current value of the item
  - Whether the item can be resold
  - The cost of the item when it was purchased
- Which of the following is a physical characteristic of land?
  - Indestructibility
  - Improvements
  - Area preference
  - Scarcity
- Which of the following describes the act by which real property can be converted into personal property?
  - Severance
  - Accession
  - Conversion
  - Attachment
- While moving into a newly purchased home, the buyer discovered that the seller had taken the ceiling fan that hung over the dining room table. The seller had not indicated that the ceiling fan would be removed, and the contract did not address this issue. Which statement is *TRUE*?
  - Ceiling fans are usually considered real estate.
  - The ceiling fan belongs to the seller.
  - Ceiling fans are considered trade fixtures.
  - Ceiling fans are considered personal property.
- A buyer purchased a parcel of land and immediately sold the mineral rights to an oil company. The buyer gave up which of the following?
  - Air rights
  - Surface rights
  - Subsurface rights
  - Vertical rights
- A truckload of lumber that a homeowner purchased has been left in the driveway for use in building a porch. The lumber is considered
  - real property.
  - personal property.
  - a chattel that is real property.
  - a trade or chattel fixture.
- Method of attachment, adaptation to real estate, and agreement between the parties are the legal tests for determining whether an item is
  - a trade fixture or personal property.
  - real property or real estate.
  - a fixture or personal property.
  - an improvement.
- Parking spaces in multiunit buildings, water rights, and similar things of value that convey with property are classified as
  - covenants.
  - emblems.
  - chattels.
  - appurtenances.
- A resort purchases a large tract of scenic forest land and puts several prefabricated steel buildings there to store landscaping equipment, fuel oil, and propane canisters. Which statement is *TRUE* regarding this situation?
  - The resort's action constitutes improvement of the property.
  - The chemicals are considered appurtenances.
  - The buildings are considered trade fixtures.
  - Storing fuel oil, which is highly flammable, is not included in the bundle of legal rights.
- A property owner's land is located along the banks of a river. This owner's water rights are called
  - littoral rights.
  - prior appropriation rights.
  - riparian rights.
  - hereditaments.
- A property owner's bundle of legal rights entitles the owner to
  - exclude utility meter readers.
  - sell the property to a neighbor.
  - erect improvements in the middle of the road.
  - sell the neighbor's property.
- According to law, a trade fixture is usually treated as
  - realty.
  - an easement.
  - personalty.
  - a license.
- A buyer is interested in a house that is well designed, but is located in a busy area that is problematic for the buyer. The buyer's concern about the property's location is called
  - physical deterioration.
  - area preference.
  - permanence of investment.
  - immobility.
- Which of the following is considered personal property?
  - Wood-burning fireplace
  - Built-in microwave
  - Bathtub
  - Patio furniture

12. Federal law specifically prohibits discrimination in the sale or rental of

A. all forms of real estate.

B. housing

C. commercial property.

D. industrial property.
13. The federal Fair Housing Act covers discrimination in

A. restaurants.

B. mortgage financing.

C. theaters.

D. automobile dealerships.
14. The splitting of a single property into smaller parcels is called

A. brokerage.

B. subdivision.

C. development.

D. management.
15. The supply of land is affected by

A. population.

B. demographics.

C. wage levels.

D. monetary policy.
16. The most important factor in determining how quickly the forces of supply and demand work is

A. a property's specific geographic location.

B. immobility of a property.

C. the property's price.

D. uniqueness of a property.
17. A person who performs a visual survey of a property structure and writes a report for a buyer is

A. an educator.

B. a home inspector.

C. an appraiser.

D. a property manager.
18. When it is sold in good condition, a school, church, or hotel may have value as

A. a converted-use property.

B. a burden on the local community.

C. farmland.

D. vacant land.
19. A person or company responsible for maintaining a client's property and maximizing the return on the client's investment is serving as

A. a rental agent.

B. a building maintenance specialist.

C. a property manager.

D. an investment counselor.
20. Detailed information about the age, education, behavior, and other characteristics of members of a population group is called

A. population analysis.

B. demographics.

C. family lifestyles.

D. household data.

UNIT

2

Real Property and the Law

LEARNING OBJECTIVES

- When you have completed this unit, you will be able to accomplish the following.
- › Describe

the concepts of land and ownership rights in real and personal property.
- › Discuss

the limitations of the real estate professional under the law.

KEY TERMS

accession	erosion	real property
accretion	fixture	reliction
air rights	improvement	riparian rights
annexation	land	severance
appurtenance	littoral rights	situs
area preference	manufactured housing	subsurface rights
avulsion	nonhomogeneity	surface rights
bundle of legal rights	personal property	trade fixture
chattel	prior appropriation	water rights
emblems	real estate	

OVERVIEW

A variety of transactions take place in the real estate market. The real estate professional is the person who brings together the parties, whether for a sale, lease, exchange, or other type of transaction. As any successful real estate professional will tell you, product knowledge is the key to success. This unit covers the fundamental principles of the product that is at the heart of every real estate transaction.



## KEY POINT REVIEW

**Real estate brokerage** is the business of bringing people together in a real estate transaction conducted by a **real estate broker** who is a person or company licensed to buy, sell, exchange, or lease real property for others for compensation. A **real estate salesperson (sales associate)** conducts brokerage activities on behalf of the broker.

**Appraisal** is the process of developing an opinion of a property's value (typically, market value) based on established methods and an appraiser's professional judgment. Licensing or certification is required for many federally related transactions, and many states require licensing or certification for other transactions as well.

**Property management** is conducted by a **property manager**, a person or company hired to maintain and manage property on behalf of the property owner. The property manager's scope of work depends on a **management agreement**, and the basic responsibility of the property manager is to protect the owner's investment while maximizing the owner's financial return.

**Financing** is the business of providing the funds that make real estate transactions possible through loans secured by a mortgage or deed of trust on the property. Funding may be provided by commercial banks, credit unions, mortgage bankers, and mortgage brokerage companies.

**Subdivision and development** involve splitting a single property into smaller parcels (subdividing) and constructing improvements on the land (development).

**Home inspection** is of interest to both purchasers and homeowners, and an inspection report will show results of a thorough survey of observable property conditions. A state license may be required of a home inspector.

**Real estate counseling** involves independent advice based on sound professional judgment regarding how to buy, sell, or invest in property.

Types of real property include **residential**, **commercial**, **mixed use**, **industrial**, **agricultural**, and **special purpose**, which can be privately or publically held.

**Discrimination** in the provision of housing and related services is prohibited by federal law.

The **real estate market** reflects the principle of **supply and demand**, influenced by the **uniqueness** and **immobility** of parcels of real estate. When the supply increases relative to demand, prices go down, and when demand increases relative to supply, prices go up.

The factors affecting the **supply** of real estate include labor force availability, construction and material costs, government controls (environmental restrictions, land use policies, building codes, zoning), and monetary policy that impacts interest rates and the money supply.

The factors affecting the **demand** for real estate include population, demographics, and employment and wage levels.

The buyer of a home can benefit from **tax deductions**, **exclusion of gain** on the sale of the home, and **tax credits**, when available.

## UNIT 1 QUIZ

- A professional opinion of a property's market value, based on established methods and using trained judgment, is performed by
  - a real estate attorney.
  - a real estate appraiser.
  - a real estate counselor.
  - a home inspector.
- In general, when the supply of a commodity increases,
  - price tends to rise.
  - price tends to drop.
  - demand for it tends to rise.
  - demand for it tends to drop.
- Which factor primarily affects supply in the real estate market?
  - Population
  - Demographics
  - Employment
  - Governmental monetary policy
- Which factor is *MOST* likely to influence demand for real estate?
  - Number of real estate professionals in the area
  - Number of full-time real estate professionals in the area
  - Wage levels and employment opportunities
  - Price of new homes being built in the area
- Property management, appraisal, financing, and development are all examples of
  - factors affecting demand.
  - specializations within the real estate industry.
  - non-real estate professions.
  - activities requiring broker management and supervision.
- What type of federal law prohibits discrimination in the provision of housing and housing-related services (including lending) based on an individual's race, color, national origin, religion, sex, familial status, or disability?
  - Licensing
  - Lot size
  - Home ownership
  - Fair housing
- A major manufacturer of automobiles announces that it will relocate one of its factories, along with 2,000 employees, to a small town. What effect will this announcement *MOST* likely have on the small town's housing market?
  - Houses will likely become less expensive.
  - Houses will likely become more expensive.
  - Because the announcement involves an issue of demographics, not of supply and demand, housing prices will stay the same.
  - The announcement involves an industrial property; residential housing will not be affected.
- A real estate professional who has several years of experience in the industry decided to retire from actively marketing properties. Now this person helps clients choose among the various alternatives involved in purchasing, using, or investing in property. What is this person's profession?
  - Real estate counselor
  - Real estate appraiser
  - Real estate educator
  - Building inspector
- Nationwide Multistate Licensing System and Registry was created to register
  - appraisers.
  - property managers.
  - home inspectors.
  - mortgage loan originators.
- Schools would be considered part of which real estate classification?
  - Special purpose
  - Industrial
  - Commercial
  - Residential
- When demand for a commodity decreases and supply remains the same,
  - price tends to rise.
  - price tends to fall.
  - price is not affected.
  - the market becomes stagnant.